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Communiqué

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The Department of Finance

The Department of Finance

October 1, 1970

October 1, 1970

MINISTER OF FINANCE
OTTAWA, ONTARIO

MINISTER OF FINANCE
OTTAWA, ONTARIO

LACKING SEVERAL ISSUES

The Department of Finance is pleased to announce that the new issue of the 1970-71 Canada Year Book of Statistics is now available. This year book contains a wealth of statistical information on the Canadian economy and society. It is a valuable reference work for all those interested in the development of Canada.

The 1970-71 Canada Year Book of Statistics is available in both English and French. It is published by the Department of Finance and is sold at a price of \$1.50. It is available in both hardcover and paperback editions. The hardcover edition is available for \$1.50 and the paperback edition for \$1.00. It is available in both English and French. It is published by the Department of Finance and is sold at a price of \$1.50. It is available in both hardcover and paperback editions. The hardcover edition is available for \$1.50 and the paperback edition for \$1.00.

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Release

Communiqué

CAI
FN 20
- C55

86-07

For immediate release

Publication immédiate

Ottawa, January 15, 1986

Ottawa, le 15 janvier 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for October 1985 and the first seven months of the 1985-86 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois d'octobre 1985 et les sept premiers mois de l'année financière 1985-86.

For October 1985, budgetary revenues were \$5,908 million, budgetary expenditures were \$8,368 million and there was a deficit of \$2,460 million. For October 1984, revenues were \$5,476 million, expenditures were \$8,007 million and there was a deficit of \$2,531 million.

Les chiffres budgétaires d'octobre 1985 montrent des recettes de \$5,908 millions, des dépenses de \$8,368 millions et un déficit de \$2,460 millions. En octobre 1984, les recettes s'établissaient à \$5,476 millions, les dépenses à \$8,007 millions et le déficit à \$2,531 millions.

For the first seven months of the 1985-86 fiscal year, revenues were \$35,997 million, expenditures were \$55,333 million and there was a deficit of \$19,336 million. For the same period last year, revenues were \$32,491 million, expenditures were \$51,992 million and there was a deficit of \$19,501 million.

Les sept premiers mois de l'année financière 1985-86 ont produit des recettes de \$35,997 millions contre des dépenses de \$55,333 millions d'où un déficit de \$19,336 millions. La période correspondante de l'an dernier avait donné des recettes de \$32,491 millions, des dépenses de \$51,992 millions et un déficit de \$19,501 millions.





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Ministère des Finances
Canada

Gouvernement
Publication

Release

Communiqué

Immediate release

Ottawa, February 10, 1986
86-25

The Honourable Michael Wilson, Minister of Finance, announced today in the House of Commons that he will be tabling the government's next budget on Wednesday, February 26, 1986.

Mr. Wilson said he also wanted to give ample notice to taxpayers arranging their financial affairs that income tax changes will generally be made effective from midnight, February 25.

"I want to make it quite clear that those who are planning their financial affairs should make sure that they arrange matters to allow for the effective date of the timing to be midnight the day before budget day," Mr. Wilson told the Commons.

This will ensure an even-handed application of such budgetary measures to all transactions entered into on budget day, regardless of where in Canada the transactions take place.

Publication immédiate

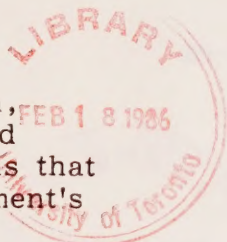
Ottawa, le 10 février 1986
86-25

Le ministre des Finances, l'honorable Michael Wilson, a annoncé à la Chambre des communes aujourd'hui qu'il déposera le prochain budget du gouvernement le mercredi 26 février 1986.

M. Wilson a déclaré qu'il désirait donner le plus de préavis possible aux contribuables qui planifient leurs affaires du fait que les modifications fiscales prendront généralement effet à minuit, le 25 février.

«Je veux qu'il soit très clair que ceux qui planifient leurs affaires financières devraient s'assurer qu'ils le font en fonction du fait que la date effective sera minuit la veille de la date du budget,» a affirmé M. Wilson devant les Communes.

Cela assurera une application égale des mesures budgétaires à toutes les transactions engagées le jour du budget, sans égard à la localité canadienne où ces transactions sont conclues.





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Communiqué

CAI
FN20
-C55

86-30

For immediate release

Publication immédiate

Ottawa, February 18, 1986

Ottawa, le 18 février 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for November 1985 and the first eight months of the 1985-86 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de novembre 1985 et les huit premiers mois de l'année financière 1985-86.

For November 1985, budgetary revenues were \$5,646 million, budgetary expenditures were \$8,437 million and there was a deficit of \$2,791 million. For November 1984, revenues were \$5,320 million, expenditures were \$8,175 million and there was a deficit of \$2,855 million.

Les chiffres budgétaires de novembre 1985 montrent des recettes de \$5,646 millions, des dépenses de \$8,437 millions et un déficit de \$2,791 millions. En novembre 1984, les recettes s'établissaient à \$5,320 millions, les dépenses à \$8,175 millions et le déficit à \$2,855 millions.

For the first eight months of the 1985-86 fiscal year, revenues were \$41,643 million, expenditures were \$63,770 million and there was a deficit of \$22,127 million. For the same period last year, revenues were \$37,811 million, expenditures were \$60,167 million and there was a deficit of \$22,356 million.

Les huit premiers mois de l'année financière 1985-86 ont produit des recettes de \$41,643 millions contre des dépenses de \$63,770 millions d'où un déficit de \$22,127 millions. La période correspondante de l'an dernier avait donné des recettes de \$37,811 millions, des dépenses de \$60,167 millions et un déficit de \$22,356 millions.



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Ottawa, February 26, 1986
86-34

BUDGET AIMS NEW MEASURES TO ASSIST LOW-INCOME CANADIANS

New budget measures to assist Canadians in need were announced today by the Honourable Michael Wilson, Minister of Finance.

"The plight of low-income Canadians is of major concern to this government," Mr. Wilson said in his budget speech to the House of Commons. He noted that his May 1985 budget increased the child tax credit to provide greater assistance to low-income families.

A new system of advance payments of the child tax credit for 1986 and subsequent years will reduce by several months the waiting period for eligible families and reduce their need to use tax discounters.

The prepayment of the 1986 child tax credit will amount to \$300 per child -- about two-thirds of the maximum payment -- for recipients who had family incomes of \$15,000 or less in 1985. Claimants will receive this payment in November 1986 rather than having to wait until their applications are processed with their tax returns filed in early 1987.

About 1,000,000 families will benefit from the prepayment. Cheques will be sent based on information on 1985 tax returns, so that special applications will not have to be submitted. Payment of any remaining credit due will be made following the filing of the 1986 tax return.

The Minister also announced a new refundable sales tax credit of \$50 per adult and \$25 per child for families with incomes below \$15,000. Mr. Wilson described it as "a fundamental innovation to the income tax system to benefit low-income Canadians, many of whom are elderly".

The credit will be refundable so that families who pay no federal income tax will receive the full benefits. More than 4 million Canadian families and individuals will receive credit benefits under this proposal.

The credit will be paid in full where the claimant has up to \$15,000 of family net income as defined by the tax rules. Credits will be reduced by 5 per cent of family income over that amount. Thus, for example, a two-parent, two-child family will be entitled to a maximum credit of \$150, which will be reduced as the family's income increases from \$15,000 to \$18,000.

The new refundable sales tax credit will reduce federal revenues by \$330 million in the first year.

The budget also announced other measures to assist low-income Canadians:

- The disability deduction available to some 185,000 disabled Canadians will be increased by \$250 for 1986. The deduction will become \$2,860 for 1986, which will be increased by the indexing factor for subsequent years.
- The government is committing up to \$100 million a year for the next three years, to be matched by provincial government funding, to a special training program. This joint federal-provincial effort is designed to help Canadians on welfare to find employment.



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Ottawa, February 26, 1986
86-35

CORPORATE TAX RESTRUCTURING PLAN PRESENTED IN BUDGET

The first stage of a restructuring of the corporate income tax, withdrawing certain tax preferences in favour of lower tax rates, was announced today by the Honourable Michael Wilson, Minister of Finance, in his budget.

The proposals were first outlined in a discussion paper issued with the May 1985 budget. Mr. Wilson said their main thrust is "to reduce selective tax preferences and move to broader-based incentives through lower tax rates."

He added that the new measures "will enhance economic performance, provide incentives based on results, and contribute to deficit reduction." During the transition period to 1988-89 they will generate an additional \$765 million of net revenue.

Mr. Wilson said that this first phase of corporate tax restructuring will be followed by the publication later this year of a new discussion paper proposing further reductions in tax write-offs and further tax rate reductions.

The proposals in this budget will phase out the general investment tax credit by 1989 and eliminate the 3-per-cent inventory allowance deduction immediately. These changes will be accompanied by a three-step reduction in the basic federal corporate tax rate, starting July 1, 1987, from the present 36 per cent to 33 per cent of taxable income by 1989.

The special low rate for manufacturing companies will decline from 30 to 26 per cent over the same period. The special rate for small business will go from 15 to 13 per cent in two steps in 1987 and 1988, while the rate for small manufacturing business will be cut from 10 to 8 per cent in 1987. The present rate of tax on investment income of small business corporations will be maintained at its present rate of 36 per cent.

The changes are designed to reduce distortions that affect business investment decisions by spreading incentives, through lower tax rates, to a broader range of sectors, while preserving special low tax rates for small business and manufacturing.

Other tax incentives are continued, some with adjustments. For example, the 20-per-cent investment tax credit applying to Atlantic Canada and the Gaspé Peninsula will continue and be extended to include eligible investments in adjacent offshore areas. The Cape Breton investment tax credit of 60 per cent will remain, with improvements. The special investment tax credit for

manufacturing investment in designated areas will be extended beyond its scheduled termination at the end of 1986 at a reduced rate of 40 per cent. Existing credits for research and development and for high-cost exploration are unchanged.

The provisions for the refund of unused investment tax credits earned in a year, which were due to expire at the end of April 1986, will be extended to the end of 1988.

The share purchase tax credit, which allows investment tax credits to be flowed to outside investors, will expire at its scheduled termination at the end of 1986.



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Ottawa, February 26, 1986
86-36

NEW RULES TO IMPROVE TAX FAIRNESS PROPOSED IN BUDGET

The Honourable Michael Wilson, Minister of Finance, today announced a series of budget steps to improve the fairness of the income tax system and reduce the proliferation of tax-motivated investments.

One major proposal will introduce new tax rules applying to limited partnerships -- a financing arrangement that has been used to shelter taxes by transferring to limited partners the benefits of tax deductions and credits generated by the business of the partnership.

"The new rules will cut back tax-motivated arrangements that can lead to high-income individuals and profitable corporations significantly reducing their taxes," Mr. Wilson said.

The budget proposes to limit the amount of investment tax credits and business losses that may be flowed out to limited partners to the amount of their investment that is actually at risk.

The Minister noted that limited partnership financings are of particular concern in cases where a limited partner is entitled to tax benefits worth more than the actual amount of his investment. This can result, for example, where tax benefits are generated by investing money borrowed by the limited partnership even though the limited partners are themselves not liable to repay the loans.

The new rules will also apply to general partnerships where the arrangement results in an effective limitation of partners' liability resembling that obtained from the use of a limited partnership.

To allow taxpayers time to adjust, the new rules will not apply to limited partnerships carrying on business on February 25, 1986. They will apply to new partnerships created after that date. They will also apply where there are substantial new capital contributions or substantial partnership borrowings after February 25, 1986, involving a limited partnership that was in existence on that date.

The budget proposes several other income tax amendments to prevent inappropriate tax deferrals and deductions and to ensure fuller reporting of investment income. Among these changes:

- New provisions governing salary deferral arrangements will ensure that tax cannot be unduly deferred by an employee through delaying the actual receipt of compensation for services. Remuneration deferred under such

an arrangement will be taxable for the employee on an accrual basis. The new rule will explicitly exclude pension and other registered plans and certain other prescribed arrangements such as teachers' sabbaticals and contract arrangements for professional athletes.

- The ability of employers to defer tax by claiming deductions for unpaid remuneration, including accrued bonuses, will also be limited.
- Under current law, a taxpayer who marries late in the year may claim the married exemption for a dependent spouse, reduced only by the spouse's income after the date of marriage. This is inappropriate where that spouse has a substantial income for the year as a whole. The new rule will base the exemption on the spouse's income for the whole year rather than from the date of marriage.
- To improve the reporting of investment income, the requirements governing the issuance of information returns will be extended to purchases and sales of treasury bills, effective January 1, 1987. Holders of treasury bills will be required to furnish their social insurance numbers to dealers or other issuers of treasury bills.



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Ottawa, February 26, 1986
86-37

BUDGET PROPOSES NEW MEASURES TO AID SMALL BUSINESSES

The Honourable Michael Wilson, Minister of Finance, today announced a series of budget proposals providing important benefits for small businesses.

"Small business is the most important source of jobs in Canada today," Mr. Wilson said. He noted that his first budget in May 1985 contained several measures to help the small business sector, and added that the new measures "reinforce our support for small business."

Major proposals involving small business:

Dividend Distributions: The existing tax of 12 1/2 per cent on dividend distributions by small businesses will be repealed, effective January 1, 1987, as part of more general changes proposed to the taxation of dividends. This will permit a significant simplification of the tax system for small business, and will facilitate the transfer of funds among small business members of corporate groups.

Lower Tax Rate: The existing low federal income tax rate on active earnings of small businesses will be reduced as part of the overall restructuring of the corporate income tax. This rate, now 15 per cent, will be lowered in stages to 14 per cent, effective July 1, 1987, and to 13 per cent July 1, 1988.

The federal tax rate on manufacturing and processing income of small business corporations will also be reduced, from 10 per cent to 8 per cent effective July 1, 1987.

Business Investment Losses: A broadened definition of a small business corporation will allow investors to make use of the allowable business investment loss provisions for investments in Canadian-controlled private corporations that are active outside Canada but are primarily carrying on an active business in Canada. Under the existing rules, to qualify for this loss provision a small business must be carrying on an active business almost exclusively within Canada. The broader tax rules allowing deduction of such losses will reduce the risk associated with investment in small business corporations.

Small Business Loans: The ceiling on total government-guaranteed loans under the Small Business Loans Act will be more than doubled from \$1 billion to \$2.5 billion. This program enables small businesses to expand by obtaining loans, guaranteed 85 per cent by the government, at an interest rate of 1 percentage point over prime lending rates.



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Communiqué

Embargoed

Ottawa, February 26, 1986
86-38

BUDGET ANNOUNCES FARM FINANCIAL ASSISTANCE MEASURES

A financial assistance policy for farmers, including an innovative plan for commodity-based mortgages, was announced today by the Honourable Michael Wilson, Minister of Finance.

"Our farmers are caught in a vicious squeeze of low prices and rising costs; many are facing an intolerable debt burden," Mr. Wilson said. "This is not just an economic problem -- it is a social problem that must be addressed."

The Farm Credit Corporation (FCC) will establish a \$700 million loan program of commodity-based mortgages for existing FCC clients in financial difficulties but with reasonable long-term prospects. Mortgages will be provided at a basic interest rate of 6 per cent, and the principal amount of the loan will be adjusted according to a formula based on farm commodity prices.

This approach will allow mortgages that start at low monthly payments, increasing only as commodity prices rise and the farmer's ability to pay improves. Thus they will provide valuable up-front assistance.

Two other assistance measures are also proposed:

- Legislation will be introduced to establish Farm Debt Review Panels to provide advice to farmers who require restructuring of their debts. The panels, composed of individuals knowledgeable in farming and financial matters, will establish whether a debt restructuring arrangement between a farmer and his creditors is feasible and will seek to facilitate voluntary arrangements between them.
- The Canadian Rural Transition Program is being established to ease the transition for farmers who must seek alternative employment. It will offer job counselling, retraining and interim financial assistance.

These measures represent an additional federal financial commitment to Canadian farmers of \$65 million this year and \$130 million next year.

As further assistance, the fuel tax rebate of three cents a litre for off-highway use of gasoline and diesel fuel on farms will be extended for one year to January 1, 1988. New guidelines will be issued shortly to simplify the calculation required to separate on-highway and off-highway fuel use.



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Embargoed

Ottawa, February 26, 1986
86-39

BUDGET ANNOUNCES ATLANTIC ENTERPRISE PROGRAM

A major new job-creation initiative, the Atlantic Enterprise Program, was announced today by the Honourable Michael Wilson, Minister of Finance, in his budget.

The new program for Atlantic Canada and the Gaspé Peninsula will provide government guarantees for private sector loans up to a total of \$1 billion, and interest rate buy-downs of up to 6 percentage points, for business start-ups or expansions.

"This program is another example of how the government, working together with the private sector, can spend smarter," Mr. Wilson said. "Together we will generate significant financial assistance so that Atlantic Canada can share in our national prosperity."

The program will be supported by a private sector advisory committee, with members from the region who are knowledgeable about local conditions and opportunities.

To avoid duplication with existing federal and provincial programs, the Atlantic Enterprise Program will be limited to term loans of a minimum of \$250,000. It will apply to viable projects in need of assistance in manufacturing, processing and related service sectors, and in parts of the tourism and primary industries. Sponsors of eligible projects will be required to share the risk; the normal government guarantee will be 85 per cent of the loan.

Detailed objectives, criteria and operating procedures of the program will be announced by the Honourable Sinclair Stevens, Minister of Regional Industrial Expansion.



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Embargoed

Ottawa, February 26, 1986
86-40

PRIVATE SECTOR FUNDING FOR UNIVERSITY R&D TO BE ENCOURAGED

The Honourable Michael Wilson, Minister of Finance, today announced budget measures to increase federal support of university-based research and development and to encourage private sector contributions in the same field.

The measures involve financing channeled through three "granting councils" to support university-based research and the development of highly-trained personnel.

Mr. Wilson announced a \$300 million increase, over the next five years, in federal funding of the Natural Sciences and Engineering Research Council, the Medical Research Council and the Social Sciences and Humanities Research Council.

He said that, in addition, private sector contributions to these councils will be matched by the government on a dollar-for-dollar basis, to a maximum annual increase of 6 per cent of each council's budget in the previous year.

A related change in the income tax rules will ensure that the favourable tax provisions available for R&D expenditures will apply to payments made by a private business to these councils to fund research that can be used in the business, provided the R&D is related to the business of the taxpayer and the results are available to him for use in the business. In other cases, contributions will be treated as a gift to the Crown.

Over all, the new funding including the matching private sector contributions could involve over \$1 billion in total resources available to the granting councils over the next five years and would provide for annual growth in their budgets of up to 12 per cent per year after 1986-87.

Mr. Wilson said the resulting partnership between the private sector and university researchers would be as important as the dollars provided.

"Contacts between the business and academic communities would be improved. And Canada would benefit from the more vigorous application of scientific knowledge to our industrial needs."



Release

Communiqué

Embargoed

Ottawa, February 26, 1986
86-41

HOUSING DEDUCTION FOR NORTHERN RESIDENTS PROPOSED IN BUDGET

A new and permanent system of income tax deductions for housing and vacation and medical travel for residents of the North and other isolated posts was announced today by the Honourable Michael Wilson, Minister of Finance, in his budget.

The deductions, effective January 1, 1987, will replace the system of remission orders that provide tax exemptions for housing and travel benefits financed by employers in those areas.

Individuals will be allowed a housing deduction of 20 per cent of net income up to a maximum of \$225 for each full month they reside north of the 60th parallel or in designated isolated posts. This maximum can be increased to \$450 a month in cases where the taxpayer maintains a self-contained dwelling, unless another individual living in the same dwelling also claims a housing deduction for the month. Since the deduction replaces the exemption now provided by remission orders for taxable benefits furnished by employers, employees will be required to include the value of such benefits after 1986 in reporting taxable income.

The new housing deduction will apply to all individuals residing in the North or isolated posts for at least six continuous months. Mr. Wilson noted that, by extending the tax assistance to employees not currently receiving employer-financed housing benefits and to the self-employed and pensioners, the new tax rules will ensure equality of treatment for Northern residents generally.

The budget also proposes, effective after 1986, a deduction for medical and vacation travel provided by an employer to employees in the North and isolated posts. The deduction for vacation travel will amount to the cost of economy airfare to the nearest designated city for two return trips per year for the employee and his or her family.

Another tax measure in the budget will benefit long-distance air travellers, including residents of the far North. This will place a ceiling of \$50 on the air transportation tax on domestic flights. To offset the revenue loss, the rate of tax will be increased to 10 per cent from 9 per cent of the ticket price. These changes will be effective May 1, 1986 for tickets sold in Canada and August 1, 1986 for tickets sold outside Canada.



Release

Communiqué

Embargoed

Ottawa, February 26, 1986
86-42

NEW FLEXIBILITY PROPOSED FOR WITHDRAWALS OF RRSP SAVINGS

Budget proposals that will give retired persons increased flexibility in using funds accumulated in registered retirement savings plans (RRSPs) were announced today by the Honourable Michael Wilson, Minister of Finance.

Existing rules on the withdrawal of RRSP funds provide individuals with the options of lump-sum withdrawal of all the funds which are then included in taxable income for the year, purchase of a life annuity or fixed-term annuity to age 90, or transfer of the funds into a registered retirement income fund (RRIF).

The budget proposals are in response to requests by retired persons for increased flexibility to vary withdrawals from a RRIF in line with their needs. Changes will be effective for 1986 and subsequent years.

The existing maximum limit on annual RRIF payouts will be removed. An individual will be allowed to withdraw any amount in excess of the current yearly minimum. The new rule will require only that the RRIF holder withdraw each year a minimum amount equal to the amount in the plan at the beginning of the year divided by the number of years to age 90 of the individual or his or her spouse. Annual withdrawals are included in taxable income.

The limit of one RRIF per individual will be eliminated, permitting greater diversification of investments.

Payments from a RRIF will be allowed to start at any time after purchase of the RRIF. The taxpayer will not have to wait until the next calendar year, as at present.

The prohibition against commutation of life or term annuities payable under an RRSP will be removed, to parallel the increased flexibility provided for RRIF withdrawals.



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Communiqué

Embargoed

Ottawa, February 26, 1986
86-43

BUDGET EXTENDS FUEL TAX REBATE FOR PRIMARY PRODUCERS

The Honourable Michael Wilson, Minister of Finance, announced today a one-year extension of the fuel tax rebate of three cents a litre paid to primary producers for gasoline and diesel fuel used in commercial activities. The rebate program, first announced in the November 1984 Fiscal and Economic Statement, is being extended to the end of 1987.

The rebate is available only for off-highway consumption of fuel. Mr. Wilson said the government recognizes the difficulty faced by farmers in keeping detailed records of on-highway and off-highway fuel use, and added that new guidelines will be issued shortly to simplify this calculation and reduce the paper burden for claimants.

The rebate program assists farmers, fishermen, loggers and mine operators. The budget estimated that the extension will involve an annual cost of \$120 million.



Communiqué

Release

En embargo

Ottawa, le 26 février 1986
86-43

LE BUDGET PROLONGE LE RABAIS DE TAXE SUR LES CARBURANTS POUR LES PRODUCTEURS PRIMAIRES

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui qu'il prolongeait d'un an le rabais de taxe sur les carburants de 3 cents le litre dont bénéficient les producteurs primaires sur l'essence et le carburant diesel utilisés à des fins commerciales.

Le programme de rabais, institué par l'exposé économique et financier de novembre 1984, est prolongé jusqu'à la fin de 1987.

Ce rabais n'est disponible que pour l'utilisation non routière de carburants. M. Wilson a déclaré que le gouvernement était conscient des difficultés que les agriculteurs éprouvaient à tenir des registres détaillés de l'utilisation routière et non routière du carburant consommé, ajoutant que de nouvelles lignes directrices seraient publiées prochainement afin de simplifier ce calcul et de réduire la paperasserie.

Le programme de rabais bénéficie aux agriculteurs, aux pêcheurs, aux exploitants forestiers et aux exploitants miniers. On estime dans le budget que cette prolongation du programme représente un valeur de \$120 millions pour l'année.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-42

ASSOUPPLISSEMENT PROPOSÉ DES RETRAITS DE REER

Des propositions budgétaires qui donneront aux retraités plus de souplesse pour utiliser les fonds placés dans des régimes enregistrés d'épargne-retraite (REER) ont été annoncées aujourd'hui par le ministre des Finances, l'honorable Michael Wilson.

Les règles qui régissent actuellement le retrait des fonds des REER permettent aux détenteurs de retirer en bloc les fonds, qui doivent alors être inclus dans le revenu imposable de l'année, d'acheter une rente viagère ou une rente à terme fixe jusqu'à l'âge de 90 ans, ou de transférer l'argent à un fonds enregistré de revenu de retraite (FERR).

Les propositions du budget répondent aux demandes des retraités qui veulent avoir plus de souplesse pour retirer les fonds d'un FERR. Les modifications s'appliqueront à l'année 1986 et les suivantes.

Le plafond actuel des retraits annuels d'un FERR sera aboli. Une personne pourra retirer n'importe quel montant au-delà du minimum annuel actuel. Les nouvelles règles exigeront uniquement que le détenteur du REER retire chaque année un minimum égal aux fonds que comporte le régime au début de l'année, divisé par le nombre d'années à couvrir jusqu'à l'âge de 90 ans par cette personne ou son conjoint. Les retraits annuels sont incorporés au revenu imposable.

La limite d'un FERR par personne sera éliminée, ce qui permettra de diversifier les placements.

Les paiements d'un FERR pourront commencer à n'importe quel moment après l'achat du régime. Le contribuable ne sera pas obligé d'attendre l'année civile suivante comme c'est le cas présentement.

La mesure interdisant la conversion des rentes viagères ou à terme payables en vertu d'un REER sera éliminée, pour offrir une souplesse accrue parallèle à celle que l'on propose pour les retraits d'un FERR.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-41

LE BUDGET PROPOSE UNE DÉDUCTION AU TITRE DU LOGEMENT POUR LES RÉSIDENTS DU NORD

Le ministre des Finances, l'honorable Michael Wilson, a annoncé dans son budget aujourd'hui un nouveau régime permanent de déductions au titre du logement et des voyages pour fins médicales ou de vacances à l'égard des résidents du Nord et des autres postes isolés.

Les déductions, qui prennent effet le 1er janvier 1987, remplaceront le système de décrets de remise prévoyant des exemptions fiscales au titre des avantages de logement et de voyages financés par les employeurs dans ces régions.

Les particuliers seront autorisés à réclamer une déduction de 20 pour cent du revenu net à concurrence de \$225, pour chaque mois entier de résidence au nord du 60ème parallèle ou dans des postes isolés désignés. Ce maximum pourra être porté à \$450 par mois si le contribuable entretient et habite un établissement domestique autonome, sauf si une autre personne résidant dans le même établissement réclame également une déduction au titre du logement au cours du même mois. Étant donné que la déduction remplace l'exemption que prévoient actuellement les décrets de remise à l'égard des avantages impossibles fournis par les employeurs, les employés devront inclure la valeur de ces avantages après 1986, lorsqu'ils déclareront leur revenu imposable.

La nouvelle déduction au titre du logement s'appliquera aux particuliers résidant dans le Nord ou dans des postes isolés pendant une période continue d'au moins six mois. M. Wilson a précisé qu'en étendant cette aide fiscale aux employés ne bénéficiant pas actuellement de logement financé par l'employeur, ainsi qu'aux personnes à leur propre compte et aux pensionnés, les nouvelles règles fiscales assureront, de façon générale, un régime uniforme à tous les résidents du Nord.

Le budget propose également que, après 1986, une déduction soit autorisée au titre des voyages pour fins médicales ou de vacances fournis par un employeur à ses employés dans le Nord et dans les postes isolés. La déduction au titre des voyages de vacances équivaldra au coût d'un vol aller-retour en classe économique jusqu'au centre désigné le plus proche, à raison de deux voyages par an pour l'employé et sa famille.

Une autre mesure du budget bénéficiera aux personnes parcourant des longues distances par avion, dont les résidents du Grand Nord. Cette mesure plafonnera à \$50 la taxe sur les vols intérieurs. Pour compenser la perte de recettes ainsi occasionnée, le taux de la taxe sera porté de 9 pour cent actuellement à 10 pour cent du coût du billet. Ces modifications entreront en vigueur le 1er mai 1986 pour les billets vendus au Canada et le 1er août 1986 pour les billets vendus à l'extérieur du Canada.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-40

ENCOURAGEMENT AUX CONTRIBUTIONS PRIVÉES À LA R&D UNIVERSITAIRE

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui dans son budget un accroissement de l'aide fédérale à la recherche-développement appuyée par les trois conseils «pourvoyeurs de subvention», ainsi que le développement d'un personnel hautement qualifié.

M. Wilson a annoncé une augmentation de \$300 millions, sur les cinq prochaines années, des crédits fédéraux au Conseil de recherche en sciences naturelles et en génie, du Conseil de recherche médical et du Conseil de recherche en sciences humaines.

Il a déclaré que, de plus, le gouvernement fournira à ses conseils une contribution équivalente à celle du secteur privé, à concurrence d'une augmentation maximale annuelle de 6 pour cent du budget de l'année précédente de chaque conseil.

Un changement connexe des règles fiscales permettront d'appliquer les dispositions fiscales avantageuses dont bénéficiaient les dépenses de R&D aux sommes versées par une entreprise privée à ses conseils afin de financer des recherches susceptibles d'être utilisées par l'entreprise en question, à condition que la R&D soit liée aux activités du contribuable et qu'il puisse exploiter les résultats de la recherche dans son entreprise. Dans les autres cas, les contributions seront considérées comme des dons à la Couronne.

Dans l'ensemble, l'accroissement de l'aide financière, y compris les contributions équivalentes à celles du secteur privé, pourrait permettre aux conseils pourvoyeurs de subvention de disposer des ressources totales supérieures à \$1 milliard, au cours des cinq prochaines années, et de bénéficier d'une augmentation de leurs budgets, de jusqu'à 12 pour cent par an après 1986-87.

M. Wilson a déclaré que le partenariat qui serait ainsi établi entre les chercheurs du secteur privé et des universités serait aussi important que l'aide financière versée.

«Les communications seraient améliorées entre l'entreprise et l'université. Le Canada bénéficierait d'une application plus vigoureuse et mieux coordonnée du savoir scientifique aux besoins de notre industrie.»



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-39

LE BUDGET ANNONCE LE PROGRAMME ENTREPRISE ATLANTIQUE

Une importante initiative nouvelle de création d'emplois, le Programme Entreprise Atlantique a été annoncé aujourd'hui par le ministre des Finances, l'honorable Michael Wilson, dans son budget.

Le nouveau programme destiné à la région de l'Atlantique et à la Gaspésie offrira des garanties de l'Etat, pour les prêts du secteur privé, à concurrence de \$1 milliard, ainsi que des bonifications de taux d'intérêt allant jusqu'à 6 points pour le lancement ou l'expansion d'entreprises.

«Ce programme fournit un autre exemple de la façon dont le gouvernement, en collaboration avec le secteur privé, peut utiliser ses ressources de manière plus judicieuse. En travaillant ensemble, nous pourrions produire une aide financière appréciable, qui permettra à la région de l'Atlantique de participer à la prospérité nationale.»

Le programme sera appuyé par un comité consultatif du secteur privé, composé de représentants de la région connaissant bien la situation et les possibilités locales.

Pour éviter tout double emploi avec les programmes fédéraux et provinciaux existants, le Programme Entreprise Atlantique sera limité à des prêts à terme d'un montant minimum de \$250,000. Il s'appliquera aux projets viables qui doivent être soutenus dans le secteur manufacturier, la fabrication et les activités de services connexes, ainsi que dans certains secteurs du tourisme et des industries primaires. Les promoteurs de projets admissibles devront partager le risque de ces derniers; la garantie de l'Etat, s'élèvera normalement à 85 pour cent du prêt.

Le ministre de l'Expansion industrielle régionale, l'honorable Sinclair Stevens, donnera des précisions sur les objectifs, les critères et les modalités de fonctionnement du programme.

À titre d'aide supplémentaire, le rabais de taxe sur les carburants de 3 cents le litre pour l'utilisation non routière d'essence et de carburant diesel dans les termes sera prolongé d'un an, jusqu'au 1^{er} janvier 1988. De nouvelles lignes directrices seront publiées prochainement afin de simplifier le calcul du rabais, qui est nécessaire pour distinguer l'utilisation routière et non routière du carburant.

Communiqué

Release

En embargo

Ottawa, le 26 février 1986
86-38

LE BUDGET ANNONCE DES MESURES D'AIDE FINANCIÈRE AUX AGRICULTEURS

Une politique d'aide financière aux agriculteurs, comportant un régime innovateur d'hypothèques basé sur le prix des produits agricoles, a été annoncée aujourd'hui par le ministre des Finances, l'honorable Michael Wilson.

«Nos agriculteurs sont pris en tenaille entre la hausse des coûts et des prix peu élevés. Beaucoup d'entre eux sont surendettés» a déclaré M. Wilson. «Il ne s'agit pas uniquement d'un problème économique -- c'est un problème social qui doit être réglé».

La Société du crédit agricole (SCA) établira un programme de prêts de \$700 millions pour des hypothèques basées sur le prix des produits agricoles, à l'intention de ses clients qui éprouvent des difficultés financières mais ont des perspectives satisfaisantes à long terme. Les hypothèques seront offertes à un taux d'intérêt de base de 6 pour cent, et le principal sera rajusté d'après une formule fondée sur les prix des produits agricoles.

Cette méthode permettra de contracter des hypothèques entraînant initialement de faibles mensualités, qui n'augmenteront qu'à mesure que les prix des produits agricoles s'accroîtront et que la capacité de paiements de l'agriculteur s'améliorera. Cette formule offrira donc une aide initiale précieuse aux agriculteurs.

Deux autres mesures d'aide sont proposées:

-- Des mesures législatives seront présentées afin de créer des comités d'examen de la dette agricole, chargés de conseiller les agriculteurs qui doivent réaménager leur dette. Les comités, composés de spécialistes de l'agriculture et de la finance, détermineront si une entente de réaménagement de la dette est possible entre un agriculteur et ses créanciers et chercheront à faciliter une entente volontaire entre les parties.

-- Le gouvernement établit un programme de réorientation des agriculteurs pour aider ces derniers à trouver un autre emploi. Le programme offrira des services d'orientation professionnels, de recyclage et d'aide financière temporaire.

Ces mesures représentent un effort financier supplémentaire de \$65 millions cette année et de \$130 millions l'an prochain, en faveur des agriculteurs canadiens.

Prêts aux petites entreprises: Le plafond limitant l'ensemble des prêts garantis par l'Etat, au titre de la Loi sur les prêts aux petites entreprises sera plus que doublé, pour passer d'un milliard à \$2.5 milliards. Ce programme permet aux petites entreprises de se développer en obtenant des prêts, garantis à 85 pour cent par l'Etat, à un taux d'intérêt inférieur de un point aux taux préférentiels.

Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-37

LE BUDGET PROPOSE DE NOUVELLES MESURES D'AIDE À LA PETITE ENTREPRISE

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui un ensemble de propositions budgétaires qui bénéficieront sensiblement aux petites entreprises.

«La petite entreprise est la principale source d'emploi au Canada de nos jours», a déclaré M. Wilson. Il a rappelé que son premier budget en 1985 comportait plusieurs mesures d'aide à la petite entreprise, ajoutant que les nouvelles propositions «renforçaient notre soutien à la petite entreprise».

Voici les principales propositions intéressantes de la petite entreprise:

Versements de dividendes: L'impôt actuel de 12 1/2 pour cent sur les dividendes versés par les petites entreprises sera abrogé le 1^{er} janvier 1987, dans le cadre de changements plus généraux du régime fiscal des dividendes. Cela permettra de simplifier sensiblement le régime fiscal de la petite entreprise et de faciliter le transfert de fonds entre les petites entreprises faisant partie d'un même groupe de sociétés.

Abaissement des taux d'imposition: Le taux réduit d'impôt fédéral sur les bénéfices des petites entreprises sera réduit dans le cadre de la restructuration globale de la fiscalité des sociétés. Ce taux, qui est actuellement de 15 pour cent, sera abaissé par étape à 14 pour cent le 1^{er} juillet 1987 et à 13 pour cent le 1^{er} juillet 1988.

Le taux fédéral d'imposition des bénéfices de fabrication et de transformation des sociétés exploitant les petites entreprises sera également abaissé de 10 à 8 pour cent à partir du 1^{er} juillet 1987.

Pertes au titre de placements d'entreprise: Une définition plus large des sociétés exploitant une petite entreprise permettra aux investisseurs de se prévaloir des dispositions sur les pertes déductibles au titre de placement d'entreprise, pour les investissements dans des sociétés privées sous le contrôle canadien qui ont des activités à l'étranger, mais exploitent activement une entreprise surtout au Canada. D'après les règles actuelles, pour donner droit à cette disposition sur les pertes déductibles, une petite société doit exploiter activement une entreprise presque exclusivement au Canada. Les règles élargies permettant la déduction de cette perte diminueront les risques présentés par les investissements dans de petites entreprises.

Le budget propose plusieurs autres modifications du régime fiscal visant à éviter les reports d'impôt et les déductions inappropriées, ainsi que pour assurer une meilleure déclaration des revenus de placement. Voici certains des changements proposés :

-- De nouvelles dispositions applicables aux arrangements de versements différés du traitement empêcheront un employé de différer indûment l'impôt en retardant le paiement de la rémunération de ses services. La rémunération différée au moyen d'un arrangement de ce genre sera imposable au niveau de l'employé en fonction des sommes courues. La nouvelle règle exclura explicitement les régimes de pensions et autres régimes enregistrés, ainsi que certains autres mécanismes prescrits comme les régimes de congés sabbatiques des enseignants et les dispositions contractuelles applicables aux athlètes professionnels.

-- La possibilité, pour un employeur de différer l'impôt en réclamant une déduction au titre des rémunérations non versées, y compris des primes courues, sera également limitée.

-- Selon les dispositions actuelles, le contribuable qui se marie à une date avancée dans l'année peut réclamer l'exemption de personne mariée au titre d'un conjoint à charge, moins le revenu du conjoint après la date du mariage. Cela ne convient pas lorsque le conjoint a un revenu appréciable pour l'ensemble de l'année. D'après les nouvelles règles, l'exemption sera fondée sur le revenu du conjoint pour toute l'année, plutôt qu'à partir de la date du mariage.

-- Pour améliorer la déclaration des revenus de placement, les exigences de production de déclaration de renseignements seront étendues aux achats et aux ventes de bons du trésor à compter du 1^{er} avril 1987. Les détenteurs de bons du trésor devront fournir leur numéro d'assurance sociale aux courtiers ou aux autres émetteurs de bons du trésor.



Communiqué

Release

En embargo

Ottawa, le 26 février 1986
86-36

NOUVELLES RÈGLES PROPOSÉES DANS LE BUDGET POUR RENDRE LES IMPÔTS PLUS ÉQUITABLES

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui un ensemble de mesures budgétaires visant à améliorer l'équité du régime fiscal et à réduire la prolifération de placements motivée par des considérations fiscales. Une importante proposition concerne de nouvelles règles fiscales applicables aux sociétés en commandite -- un organisme de financement utilisé pour se protéger de l'impôt par le transfert aux commanditaires des déductions fiscales et des crédits d'impôt engendrés par les activités de la société en commandite.

«Les nouvelles règles permettront de réduire les arrangements motivés par des considérations d'ordre fiscal qui permettent à des particuliers à revenu élevé et à des entreprises rentables de réduire sensiblement leurs impôts», a déclaré M. Wilson.

Le budget propose de limiter les crédits d'impôt à l'investissement et les pertes d'entreprise pouvant être transférées aux commanditaires à la fraction véritablement «à risques» de leur investissement.

Le ministre a fait remarquer que les financements par sociétés en commandite étaient particulièrement préoccupants lorsqu'un commanditaire avait droit à des avantages fiscaux d'une valeur supérieure à son investissement effectif. Cela peut se produire par exemple lorsque les avantages fiscaux sont engendrés par le placement de fonds empruntés par la société en commandite, même si les commanditaires ne sont pas responsables du remboursement des prêts.

Les nouvelles règles s'appliqueront également aux sociétés de personnes lorsque les arrangements limitent dans les faits la responsabilité des associés, de la même façon que dans une société en commandite.

Pour donner aux contribuables, le temps de s'adapter aux nouvelles règles, ces dernières ne s'appliqueront pas aux sociétés en commandite exploitant une entreprise le 25 février 1986. Elles s'appliqueront aux nouvelles sociétés créées après cette date. Elles s'appliqueront aussi lorsqu'une société en commandite qui existait le 25 février 1986 recevra d'importants apports en capital caractérisés d'importants emprunts après cette date.

encouragements, par l'entremise de taux réduits d'imposition, à un plus grand nombre de secteurs, tout en faisant bénéficier les secteurs de la petite entreprise et de la fabrication de taux réduits spéciaux d'imposition.

D'autres encouragements sont maintenus avec quelques rajustements. Par exemple, le crédit à l'investissement de 20 pour cent s'appliquant à la région de l'Atlantique et à la péninsule de Gaspé sera maintenu et étendu aux investissements admissibles dans les localités extracôtières adjacentes. Le crédit à l'investissement de 60 pour cent au Cap-Breton sera maintenu avec certaines améliorations. Le crédit spécial à l'investissement pour les investissements dans le secteur de la fabrication dans les régions désignées sera reconduit au delà de sa date d'expiration de la fin de 1986 à un taux réduit de 40 pour cent. Les crédits existants au titre de la recherche et du développement et de l'exploration à coût élevé restent inchangés.

La provision de remboursement des crédits à l'investissement inutilisés gagnés dans une année donnée, devant se terminer à la fin d'avril 1986, sera étendue à la fin de 1988.

Le crédit à l'achat d'actions, permettant de faire bénéficier des investisseurs de l'extérieur des crédits à l'investissement, prendra fin comme prévu à la fin de 1986.



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Communiqué

En embargo

Ottawa, le 26 février 1986
86-35

LE BUDGET PRÉSENTE UN PLAN DE RESTRUCTURATION DE L'IMPÔT DES SOCIÉTÉS

La première phase d'une restructuration de l'impôt sur le revenu des sociétés, prévoyant le retrait de certaines préférences fiscales à la faveur de taux réduits d'imposition, a été annoncée aujourd'hui par le ministre des Finances, l'honorable Michael Wilson, dans son budget.

Les propositions avaient été exposées préalablement dans un document d'étude émis avec le budget de mai 1985. M. Wilson a précisé qu'elles avaient pour principal objectif « de réduire les préférences fiscales sélectives et de fournir des encouragements d'application plus générales par l'entremise de taux d'imposition moins élevés. »

Il a ajouté que les nouvelles mesures « amélioreront la tenue de l'économie, fourniront des encouragements fondés sur les résultats et contribueront à la réduction du déficit ». Au cours de la période transitoire de 1988-89, ces mesures engendreront des recettes supplémentaires nettes de l'ordre de \$765 millions.

M. Wilson a affirmé que cette première phase de la restructuration du régime fiscal des sociétés sera suivie de la publication, plus tard cette année, d'un document d'étude, lequel proposera d'autres diminutions des déductions et réductions des taux d'imposition.

Les propositions de ce budget élimineront graduellement le crédit général à l'investissement d'ici 1989 et éliminent immédiatement la déduction de 3 pour cent pour stocks. Ces modifications seront assorties d'une réduction en trois étapes de l'impôt fédéral de base des sociétés à compter du 1^{er} juillet 1987, le faisant passer de son taux actuel de 36 pour cent à 33 pour cent du revenu imposable d'ici 1989.

Le taux réduit spécial à l'égard des entreprises de fabrication diminuera, passant de 30 à 26 pour cent sur la même période. Le taux spécial de la petite entreprise passera de 15 à 13 pour cent en deux étapes en 1987 et 1988, tandis que le taux s'appliquant aux petites entreprises de fabrication baissera de 10 à 8 pour cent en 1987. Le taux actuel de l'impôt sur le revenu de placement des sociétés exploitant une petite entreprise sera maintenu à son niveau actuel de 36 pour cent.

Les modifications sont conçues de manière à réduire les distorsions qui influent sur les décisions d'investissement des entreprises en transmettant les

exemple, une famille comptant deux parents et deux enfants auront droit à un crédit maximum de \$150, lequel sera réduit à mesure que le revenu de la famille passe de \$15,000 à \$18,000.

Le nouveau crédit remboursable au titre de la taxe de vente réduira les recettes fédérales de \$330 millions au cours de la première année.

Le budget annonce également d'autres mesures conçues pour assister les Canadiens à revenu modeste:

-- La déduction pour handicapés dont bénéficient quelque 185,000 Canadiens sera majorée de \$250 en 1986. La déduction passera à \$2,860 en 1986 et elle sera majorée par le facteur d'indexation les années suivantes.

-- Le gouvernement affecte jusqu'à \$100 millions par an au cours des trois prochains exercices -- et les provinces fourniront un montant correspondant -- à un programme de formation spécial. Ce programme fédéral-provincial conjoint est conçu pour aider les assistés sociaux canadiens à se trouver un emploi.



Release Communiqué

En embargo

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Ottawa, le 26 février 1986
86-34

LE BUDGET LANCE DE NOUVELLES MESURES POUR VENIR EN AIDE AUX CANADIENS À FAIBLE REVENU

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui des nouvelles mesures budgétaires pour venir en aide aux Canadiens dans le besoin.

«Le sort des Canadiens à faible revenu préoccupe beaucoup notre gouvernement», a affirmé M. Wilson dans son discours du budget à la Chambre des communes. Il a précisé que son budget de mai 1985 avait majoré le crédit d'impôt pour enfant de manière à fournir une aide plus importante aux familles à faible revenu.

Un nouveau système de paiement anticipé du crédit d'impôt pour enfant, pour les années 1986 et suivantes, viendra réduire de plusieurs mois la période d'attente pour les familles admissibles et réduira la nécessité pour celles-ci de recourir à des escompteurs d'impôt.

Le paiement anticipé du crédit d'impôt pour enfant de 1986 s'élèvera à \$300 par enfant -- soit à environ deux tiers du paiement maximum -- pour les bénéficiaires dont les revenus de la famille s'élevaient à \$15,000 ou moins en 1985. Les réclamants recevront ce paiement en novembre 1986 au lieu de devoir attendre que leur demande ait été traitée dans le cadre de leur déclaration d'impôt au début de 1987.

Environ 1,000,000 de familles bénéficieront du paiement anticipé. Les chèques seront émis d'après les renseignements fournis dans la déclaration d'impôt de 1985, de manière qu'aucune demande spéciale ne sera nécessaire. Le paiement du solde du crédit sera versé après la production de la déclaration d'impôt de 1986.

Le ministre a également annoncé un nouveau crédit remboursable au titre de la taxe fédérale de vente, de \$50 par adulte et de \$25 par enfant, pour les familles dont les revenus se situent à \$15,000 ou moins. M. Wilson a décrit cette mesure comme étant «une innovation fondamentale, en matière fiscale, qui bénéficiera aux Canadiens à faible revenu, qui sont souvent des personnes âgées».

Le crédit sera remboursable de manière que les familles qui ne paient aucun impôt fédéral sur le revenu en bénéficieront intégralement. Plus de 4 millions de familles canadiennes et de particuliers bénéficieront du crédit dans le cadre de cette proposition.

Le crédit sera versé intégralement aux réclamants dont le revenu familial net est de \$15,000 ou moins selon la définition des règles fiscales. Les crédits seront réduits de 5 pour cent du revenu familial s'il est supérieur à ce montant. Par



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En embargo

Ottawa, le 26 février 1986
86-34

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En embargo

Ottawa, le 26 février 1986
86-35

LE BUDGET PRÉSENTE UN PLAN DE RESTRUCTURATION DE L'IMPÔT DES SOCIÉTÉS

La première phase d'une restructuration de l'impôt sur le revenu des sociétés, prévoyant le retrait de certaines préférences fiscales à la faveur de taux réduits d'imposition, a été annoncée aujourd'hui par le ministre des Finances, l'honorable Michael Wilson, dans son budget.

Les propositions ont été exposées préalablement dans un document d'étude émis avec le budget de mai 1985. M. Wilson a précisé qu'elles avaient pour principal objectif «de réduire les préférences fiscales sélectives et de fournir des encouragements d'application plus générales par l'entremise de taux d'imposition moins élevés.»

Il a ajouté que les nouvelles mesures «amélioreront la tenue de l'économie, fourniront des encouragements fondés sur les résultats et contribueront à la réduction du déficit». Au cours de la période transitoire de 1988-89, ces mesures engendreront des recettes supplémentaires nettes de l'ordre de \$765 millions.

M. Wilson a affirmé que cette première phase de la restructuration du régime fiscal des sociétés sera suivie de la publication, plus tard cette année, d'un document d'étude, lequel proposera d'autres diminutions des déductions et réductions des taux d'imposition.

Les propositions de ce budget élimineront graduellement le crédit général à l'investissement d'ici 1989 et éliminent immédiatement la déduction de 3 pour cent pour stocks. Ces modifications seront assorties d'une réduction en trois étapes de l'impôt fédéral de base des sociétés à compter du 1^{er} juillet 1987, le faisant passer de son taux actuel de 36 pour cent à 33 pour cent du revenu imposable d'ici 1989.

Le taux réduit spécial à l'égard des entreprises de fabrication diminuera, passant de 30 à 26 pour cent sur la même période. Le taux spécial de la petite entreprise passera de 15 à 13 pour cent en deux étapes en 1987 et 1988, tandis que le taux s'appliquant aux petites entreprises de fabrication baissera de 10 à 8 pour cent en 1987. Le taux actuel de l'impôt sur le revenu de placement des sociétés exploitant une petite entreprise sera maintenu à son niveau actuel de 36 pour cent.

Les modifications sont conçues de manière à réduire les distorsions qui influent sur les décisions d'investissement des entreprises en transmettant les

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encouragements, par l'entremise de taux réduits d'imposition, à un plus grand nombre de secteurs, tout en faisant bénéficier les secteurs de la petite entreprise et de la fabrication de taux réduits spéciaux d'imposition.

D'autres encouragements sont maintenus avec quelques rajustements. Par exemple, le crédit à l'investissement de 20 pour cent s'appliquant à la région de l'Atlantique et à la péninsule de Gaspé sera maintenu et étendu aux investissements admissibles dans les localités extracôtières adjacentes. Le crédit à l'investissement de 60 pour cent au Cap-Breton sera maintenu avec certaines améliorations. Le crédit spécial à l'investissement pour les investissements dans le secteur de la fabrication dans les régions désignées sera reconduit au delà de sa date d'expiration de la fin de 1986 à un taux réduit de 40 pour cent. Les crédits existants au titre de la recherche et du développement et de l'exploration à coût élevé restent inchangés.

La provision de remboursement des crédits à l'investissement inutilisés gagnés dans une année donnée, devant se terminer à la fin d'avril 1986, sera étendue à la fin de 1988.

Le crédit à l'achat d'actions, permettant de faire bénéficier des investisseurs de l'extérieur des crédits à l'investissement, prendra fin comme prévu à la fin de 1986.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-36

NOUVELLES RÈGLES PROPOSÉES DANS LE BUDGET POUR RENDRE LES IMPÔTS PLUS ÉQUITABLES

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui un ensemble de mesures budgétaires visant à améliorer l'équité du régime fiscal et à réduire la prolifération de placements motivée par des considérations fiscales.

Une importante proposition concerne de nouvelles règles fiscales applicables aux sociétés en commandite -- un organisme de financement utilisé pour se protéger de l'impôt par le transfert aux commanditaires des déductions fiscales et des crédits d'impôt engendrés par les activités de la société en commandite.

«Les nouvelles règles permettront de réduire les arrangements motivés par des considérations d'ordre fiscal qui permettent à des particuliers à revenu élevé et à des entreprises rentables de réduire sensiblement leurs impôts», a déclaré M. Wilson.

Le budget propose de limiter les crédits d'impôt à l'investissement et les pertes d'entreprise pouvant être transférées aux commanditaires à la fraction véritablement «à risques» de leur investissement.

Le ministre a fait remarquer que les financements par sociétés en commandite étaient particulièrement préoccupants lorsqu'un commanditaire avait droit à des avantages fiscaux d'une valeur supérieure à son investissement effectif. Cela peut se produire par exemple lorsque les avantages fiscaux sont engendrés par le placement de fonds empruntés par la société en commandite, même si les commanditaires ne sont pas responsables du remboursement des prêts.

Les nouvelles règles s'appliqueront également aux sociétés de personnes lorsque les arrangements limitent dans les faits la responsabilité des associés, de la même façon que dans une société en commandite.

Pour donner aux contribuables, le temps de s'adapter aux nouvelles règles, ces dernières ne s'appliqueront pas aux sociétés en commandite exploitant une entreprise le 25 février 1986. Elles s'appliqueront aux nouvelles sociétés créées après cette date. Elles s'appliqueront aussi lorsqu'une société en commandite qui existait le 25 février 1986 recevra d'importants apports en capital contractera d'importants emprunts après cette date.

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Le budget propose plusieurs autres modifications du régime fiscal visant à éviter les reports d'impôt et les déductions inappropriés, ainsi que pour assurer une meilleure déclaration des revenus de placement. Voici certains des changements proposés:

- De nouvelles dispositions applicables aux arrangements de versements différés du traitement empêcheront un employé de différer indûment l'impôt en retardant le paiement de la rémunération de ses services. La rémunération différée au moyen d'un arrangement de ce genre sera imposable au niveau de l'employé en fonction des sommes courues. La nouvelle règle exclura explicitement les régimes de pensions et autres régimes enregistrés, ainsi que certains autres mécanismes prescrits comme les régimes de congés sabbatiques des enseignants et les dispositions contractuelles applicables aux athlètes professionnels.
- La possibilité, pour un employeur de différer l'impôt en réclamant une déduction au titre des rémunérations non versées, y compris des primes courues, sera également limitée.
- Selon les dispositions actuelles, le contribuable qui se marie à une date avancée dans l'année peut réclamer l'exemption de personne mariée au titre d'un conjoint à charge, moins le revenu du conjoint après la date du mariage. Cela ne convient pas lorsque le conjoint a un revenu appréciable pour l'ensemble de l'année. D'après les nouvelles règles, l'exemption sera fondée sur le revenu du conjoint pour toute l'année, plutôt qu'à partir de la date du mariage.
- Pour améliorer la déclaration des revenus de placement, les exigences de production de déclaration de renseignements seront étendues aux achats et aux ventes de bons du trésor à compter du 1^{er} avril 1987. Les détenteurs de bons du trésor devront fournir leur numéro d'assurance sociale aux courtiers ou aux autres émetteurs de bons du trésor.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-37

LE BUDGET PROPOSE DE NOUVELLES MESURES D'AIDE À LA PETITE ENTREPRISE

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui un ensemble de propositions budgétaires qui bénéficie sensiblement aux petites entreprises.

«La petite entreprise est la principale source d'emploi au Canada de nos jours,» a déclaré M. Wilson. Il a rappelé que son premier budget en 1985 comportait plusieurs mesures d'aide à la petite entreprise, ajoutant que les nouvelles propositions «renforçaient notre soutien à la petite entreprise».

Voici les principales propositions intéressantes de la petite entreprise:

Versements de dividendes: L'impôt actuel de 12 1/2 pour cent sur les dividendes versés par les petites entreprises sera abrogé le 1^{er} janvier 1987, dans le cadre de changements plus généraux du régime fiscal des dividendes. Cela permettra de simplifier sensiblement le régime fiscal de la petite entreprise et de faciliter le transfert de fonds entre les petites entreprises faisant partie d'un même groupe de sociétés.

Abaissement des taux d'imposition: Le taux réduit d'impôt fédéral sur les bénéfices des petites entreprises sera réduit dans le cadre de la restructuration globale de la fiscalité des sociétés. Ce taux, qui est actuellement de 15 pour cent, sera abaissé par étape à 14 pour cent le 1^{er} juillet 1987 et à 13 pour cent le 1^{er} juillet 1988.

Le taux fédéral d'imposition des bénéfices de fabrication et de transformation des sociétés exploitant les petites entreprises sera également abaissé de 10 à 8 pour cent à partir du 1^{er} juillet 1987.

Pertes au titre de placements d'entreprise: Une définition plus large des sociétés exploitant une petite entreprise permettra aux investisseurs de se prévaloir des dispositions sur les pertes déductibles au titre de placement d'entreprise, pour les investissements dans des sociétés privées sous le contrôle canadien qui ont des activités à l'étranger, mais exploitent activement une entreprise surtout au Canada. D'après les règles actuelles, pour donner droit à cette disposition sur les pertes déductibles, une petite société doit exploiter activement une entreprise presque exclusivement au Canada. Les règles élargies permettant la déduction de cette perte diminueront les risques présentés par les investissements dans de petites entreprises.

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Prêts aux petites entreprises: Le plafond limitant l'ensemble des prêts garantis par l'État, au titre de la Loi sur les prêts aux petites entreprises sera plus que doublé, pour passer d'un milliard à \$2.5 milliards. Ce programme permet aux petites entreprises de se développer en obtenant des prêts, garantis à 85 pour cent par l'État, à un taux d'intérêt inférieur de un point aux taux préférentiels.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-38

LE BUDGET ANNONCE DES MESURES D'AIDE FINANCIÈRE AUX AGRICULTEURS

Une politique d'aide financière aux agriculteurs, comportant un régime innovateur d'hypothèques basé sur le prix des produits agricoles, a été annoncée aujourd'hui par le ministre des Finances, l'honorable Michael Wilson.

«Nos agriculteurs sont pris en tenaille entre la hausse des coûts et des prix peu élevés. Beaucoup d'entre eux sont surendettés» a déclaré M. Wilson. «Il ne s'agit pas uniquement d'un problème économique -- c'est un problème social qui doit être réglé».

La Société du crédit agricole (SCA) établira un programme de prêts de \$700 millions pour des hypothèques basées sur le prix des produits agricoles, à l'intention de ses clients qui éprouvent des difficultés financières mais ont des perspectives satisfaisantes à long terme. Les hypothèques seront offertes à un taux d'intérêt de base de 6 pour cent, et le principal sera rajusté d'après une formule fondée sur les prix des produits agricoles.

Cette méthode permettra de contracter des hypothèques entraînant initialement de faibles mensualités, qui n'augmenteront qu'à mesure que les prix des produits agricoles s'accroîtront et que la capacité de paiements de l'agriculteur s'améliorera. Cette formule offrira donc une aide initiale précieuse aux agriculteurs.

Deux autres mesures d'aide sont proposées:

- Des mesures législatives seront présentées afin de créer des comités d'examen de la dette agricole, chargés de conseiller les agriculteurs qui doivent réaménager leur dette. Les comités, composés de spécialistes de l'agriculture et de la finance, détermineront si une entente de réaménagement de la dette est possible entre un agriculteur et ses créanciers et chercheront à faciliter une entente volontaire entre les parties.
- Le gouvernement établit un programme de réorientation des agriculteurs pour aider ces derniers à trouver un autre emploi. Le programme offrira des services d'orientation professionnels, de recyclage et d'aide financière temporaire.

Ces mesures représentent un effort financier supplémentaire de \$65 millions cette année et de \$130 millions l'an prochain, en faveur des agriculteurs canadiens.

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À titre d'aide supplémentaire, le rabais de taxe sur les carburants de 3 cents le litre pour l'utilisation non routière d'essence et de carburant diesel dans les fermes sera prolongé d'un an, jusqu'au 1^{er} janvier 1988. De nouvelles lignes directrices seront publiées prochainement afin de simplifier le calcul du rabais, qui est nécessaire pour distinguer l'utilisation routière et non routière du carburant.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-39

LE BUDGET ANNONCE LE PROGRAMME ENTREPRISE ATLANTIQUE

Une importante initiative nouvelle de création d'emplois, le Programme Entreprise Atlantique a été annoncé aujourd'hui par le ministre des Finances, l'honorable Michael Wilson, dans son budget.

Le nouveau programme destiné à la région de l'Atlantique et à la Gaspésie offrira des garanties de l'État, pour les prêts du secteur privé, à concurrence de \$1 milliard, ainsi que des bonifications de taux d'intérêt allant jusqu'à 6 points pour le lancement ou l'expansion d'entreprises.

«Ce programme fournit un autre exemple de la façon dont le gouvernement, en collaboration avec le secteur privé, peut utiliser ses ressources de manière plus judicieuse. En travaillant ensemble, nous pourrions produire une aide financière appréciable, qui permettra à la région de l'Atlantique de participer à la prospérité nationale.»

Le programme sera appuyé par un comité consultatif du secteur privé, composé de représentants de la région connaissant bien la situation et les possibilités locales.

Pour éviter tout double emploi avec les programmes fédéraux et provinciaux existants, le Programme Entreprise Atlantique sera limité à des prêts à terme d'un montant minimum de \$250,000. Il s'appliquera aux projets viables qui doivent être soutenus dans le secteur manufacturier, la fabrication et les activités de services connexes, ainsi que dans certains secteurs du tourisme et des industries primaires. Les promoteurs de projets admissibles devront partager le risque de ces derniers; la garantie de l'État, s'élèvera normalement à 85 pour cent du prêt.

Le ministre de l'Expansion industrielle régionale, l'honorable Sinclair Stevens, donnera des précisions sur les objectifs, les critères et les modalités de fonctionnement du programme.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-40

ENCOURAGEMENT AUX CONTRIBUTIONS PRIVÉES À LA R&D UNIVERSITAIRE

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui dans son budget un accroissement de l'aide fédérale à la recherche-développement universitaire ainsi qu'un encouragement aux contributions du secteur privé à ce domaine.

Les mesures portent sur le financement de la recherche universitaire qui est appuyée par les trois conseils «pourvoyeurs de subvention», ainsi que le développement d'un personnel hautement qualifié.

M. Wilson a annoncé une augmentation de \$300 millions, sur les cinq prochaines années, des crédits fédéraux au Conseil de recherche en sciences naturelles et en génie, du Conseil de recherche médical et du Conseil de recherche en sciences humaines.

Il a déclaré que, de plus, le gouvernement fournira à ses conseils une contribution équivalente à celle du secteur privé, à concurrence d'une augmentation maximale annuelle de 6 pour cent du budget de l'année précédente de chaque conseil.

Un changement connexe des règles fiscales permettront d'appliquer les dispositions fiscales avantageuses dont bénéficient les dépenses de R&D aux sommes versées par une entreprise privée à ses conseils afin de financer des recherches susceptibles d'être utilisées par l'entreprise en question, à condition que la R&D soit liée aux activités du contribuable et qu'il puisse exploiter les résultats de la recherche dans son entreprise. Dans les autres cas, les contributions seront considérées comme des dons à la Couronne.

Dans l'ensemble, l'accroissement de l'aide financière, y compris les contributions équivalentes à celles du secteur privé, pourrait permettre aux conseils pourvoyeurs de subvention de disposer des ressources totales supérieures à \$1 milliard, au cours des cinq prochaines années, et de bénéficier d'une augmentation de leurs budgets, de jusqu'à 12 pour cent par an après 1986-87.

M. Wilson a déclaré que le partenariat qui serait ainsi établi entre les chercheurs du secteur privé et des universités serait aussi important que l'aide financière versée.

«Les communications seraient améliorées entre l'entreprise et l'université. Le Canada bénéficierait d'une application plus vigoureuse et mieux coordonnée du savoir scientifique aux besoins de notre industrie.»



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-41

LE BUDGET PROPOSE UNE DÉDUCTION AU TITRE DU LOGEMENT POUR LES RÉSIDENTS DU NORD

Le ministre des Finances, l'honorable Michael Wilson, a annoncé dans son budget aujourd'hui un nouveau régime permanent de déductions au titre du logement et des voyages pour fins médicales ou de vacances à l'égard des résidents du Nord et des autres postes isolés.

Les déductions, qui prennent effet le 1er janvier 1987, remplaceront le système de décrets de remise prévoyant des exemptions fiscales au titre des avantages de logement et de voyages financés par les employeurs dans ces régions.

Les particuliers seront autorisés à réclamer une déduction de 20 pour cent du revenu net à concurrence de \$225, pour chaque mois entier de résidence au nord du 60ème parallèle ou dans des postes isolés désignés. Ce maximum pourra être porté à \$450 par mois si le contribuable entretient et habite un établissement domestique autonome, sauf si une autre personne résidant dans le même établissement réclame également une déduction au titre du logement au cours du même mois. Étant donné que la déduction remplace l'exemption que prévoient actuellement les décrets de remise à l'égard des avantages imposables fournis par les employeurs, les employés devront inclure la valeur de ces avantages après 1986, lorsqu'ils déclareront leur revenu imposable.

La nouvelle déduction au titre du logement s'appliquera aux particuliers résidant dans le Nord ou dans des postes isolés pendant une période continue d'au moins six mois. M. Wilson a précisé qu'en étendant cette aide fiscale aux employés ne bénéficiant pas actuellement de logement financé par l'employeur, ainsi qu'aux personnes à leur propre compte et aux pensionnés, les nouvelles règles fiscales assureront, de façon générale, un régime uniforme à tous les résidents du Nord.

Le budget propose également que, après 1986, une déduction soit autorisée au titre des voyages pour fins médicales ou de vacances fournis par un employeur à ses employés dans le Nord et dans les postes isolés. La déduction au titre des voyages de vacances équivaudra au coût d'un vol aller-retour en classe économique jusqu'au centre désigné le plus proche, à raison de deux voyages par an pour l'employé et sa famille.

Une autre mesure du budget bénéficiera aux personnes parcourant des longues distances par avion, dont les résidents du Grand Nord. Cette mesure plafonnera à \$50 la taxe sur les vols intérieurs. Pour compenser la perte de recettes ainsi occasionnée, le taux de la taxe sera porté de 9 pour cent actuellement à 10 pour cent du coût du billet. Ces modifications entreront en vigueur le 1er mai 1986 pour les billets vendus au Canada et le 1er août 1986 pour les billets vendus à l'extérieur du Canada.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-42

ASSOUPPLISSEMENT PROPOSÉ DES RETRAITS DE REER

Des propositions budgétaires qui donneront aux retraités plus de souplesse pour utiliser les fonds placés dans des régimes enregistrés d'épargne-retraite (REER) ont été annoncées aujourd'hui par le ministre des Finances, l'honorable Michael Wilson.

Les règles qui régissent actuellement le retrait des fonds des REER permettent aux détenteurs de retirer en bloc les fonds, qui doivent alors être inclus dans le revenu imposable de l'année, d'acheter une rente viagère ou une rente à terme fixe jusqu'à l'âge de 90 ans, ou de transférer l'argent à un fonds enregistré de revenu de retraite (FERR).

Les propositions du budget répondent aux demandes des retraités qui veulent avoir plus de souplesse pour retirer les fonds d'un FERR. Les modifications s'appliqueront à l'année 1986 et les suivantes.

Le plafond actuel des retraits annuels d'un FERR sera aboli. Une personne pourra retirer n'importe quel montant au-delà du minimum annuel actuel. Les nouvelles règles exigeront uniquement que le détenteur du REER retire chaque année un minimum égal aux fonds que comporte le régime au début de l'année, divisé par le nombre d'années à courir jusqu'à l'âge de 90 ans par cette personne ou son conjoint. Les retraits annuels sont incorporés au revenu imposable.

La limite d'un FERR par personne sera éliminée, ce qui permettra de diversifier les placements.

Les paiements d'un FERR pourront commencer à n'importe quel moment après l'achat du régime. Le contribuable ne sera pas obligé d'attendre l'année civile suivante comme c'est le cas présentement.

La mesure interdisant la conversion des rentes viagères ou à terme payables en vertu d'un REER sera éliminée, pour offrir une souplesse accrue parallèle à celle que l'on propose pour les retraits d'un FERR.



Release

Communiqué

En embargo

Ottawa, le 26 février 1986
86-43

LE BUDGET PROLONGE LE RABAIS DE TAXE SUR LES CARBURANTS POUR LES PRODUCTEURS PRIMAIRES

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui qu'il prolongeait d'un an le rabais de taxe sur les carburants de 3 cents le litre dont bénéficient les producteurs primaires sur l'essence et le carburant diesel utilisés à des fins commerciales.

Le programme de rabais, institué par l'exposé économique et financier de novembre 1984, est prolongé jusqu'à la fin de 1987.

Ce rabais n'est disponible que pour l'utilisation non routière de carburants. M. Wilson a déclaré que le gouvernement était conscient des difficultés que les agriculteurs éprouvaient à tenir des registres détaillés de l'utilisation routière et non routière du carburant consommé, ajoutant que de nouvelles lignes directrices seraient publiées prochainement afin de simplifier ce calcul et de réduire la paperasserie.

Le programme de rabais bénéficie aux agriculteurs, aux pêcheurs, aux exploitants forestiers et aux exploitants miniers. On estime dans le budget que cette prolongation du programme représente une valeur de \$120 millions pour l'année.



Release

Communiqué

Embargoed

Ottawa, February 26, 1986
86-43

BUDGET EXTENDS FUEL TAX REBATE FOR PRIMARY PRODUCERS

The Honourable Michael Wilson, Minister of Finance, announced today a one-year extension of the fuel tax rebate of three cents a litre paid to primary producers for gasoline and diesel fuel used in commercial activities. The rebate program, first announced in the November 1984 Fiscal and Economic Statement, is being extended to the end of 1987.

The rebate is available only for off-highway consumption of fuel. Mr. Wilson said the government recognizes the difficulty faced by farmers in keeping detailed records of on-highway and off-highway fuel use, and added that new guidelines will be issued shortly to simplify this calculation and reduce the paper burden for claimants.

The rebate program assists farmers, fishermen, loggers and mine operators. The budget estimated that the extension will involve an annual cost of \$120 million.



Release

Communiqué

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Ottawa, February 26, 1986
86-42

NEW FLEXIBILITY PROPOSED FOR WITHDRAWALS OF RRSP SAVINGS

Budget proposals that will give retired persons increased flexibility in using funds accumulated in registered retirement savings plans (RRSPs) were announced today by the Honourable Michael Wilson, Minister of Finance.

Existing rules on the withdrawal of RRSP funds provide individuals with the options of lump-sum withdrawal of all the funds which are then included in taxable income for the year, purchase of a life annuity or fixed-term annuity to age 90, or transfer of the funds into a registered retirement income fund (RRIF).

The budget proposals are in response to requests by retired persons for increased flexibility to vary withdrawals from a RRIF in line with their needs. Changes will be effective for 1986 and subsequent years.

The existing maximum limit on annual RRIF payouts will be removed. An individual will be allowed to withdraw any amount in excess of the current yearly minimum. The new rule will require only that the RRIF holder withdraw each year a minimum amount equal to the amount in the plan at the beginning of the year divided by the number of years to age 90 of the individual or his or her spouse. Annual withdrawals are included in taxable income.

The limit of one RRIF per individual will be eliminated, permitting greater diversification of investments.

Payments from a RRIF will be allowed to start at any time after purchase of the RRIF. The taxpayer will not have to wait until the next calendar year, as at present.

The prohibition against commutation of life or term annuities payable under an RRSP will be removed, to parallel the increased flexibility provided for RRIF withdrawals.



Release

Communiqué

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Ottawa, February 26, 1986
86-41

HOUSING DEDUCTION FOR NORTHERN RESIDENTS PROPOSED IN BUDGET

A new and permanent system of income tax deductions for housing and vacation and medical travel for residents of the North and other isolated posts was announced today by the Honourable Michael Wilson, Minister of Finance, in his budget.

The deductions, effective January 1, 1987, will replace the system of remission orders that provide tax exemptions for housing and travel benefits financed by employers in those areas.

Individuals will be allowed a housing deduction of 20 per cent of net income up to a maximum of \$225 for each full month they reside north of the 60th parallel or in designated isolated posts. This maximum can be increased to \$450 a month in cases where the taxpayer maintains a self-contained dwelling, unless another individual living in the same dwelling also claims a housing deduction for the month. Since the deduction replaces the exemption now provided by remission orders for taxable benefits furnished by employers, employees will be required to include the value of such benefits after 1986 in reporting taxable income.

The new housing deduction will apply to all individuals residing in the North or isolated posts for at least six continuous months. Mr. Wilson noted that, by extending the tax assistance to employees not currently receiving employer-financed housing benefits and to the self-employed and pensioners, the new tax rules will ensure equality of treatment for Northern residents generally.

The budget also proposes, effective after 1986, a deduction for medical and vacation travel provided by an employer to employees in the North and isolated posts. The deduction for vacation travel will amount to the cost of economy airfare to the nearest designated city for two return trips per year for the employee and his or her family.

Another tax measure in the budget will benefit long-distance air travellers, including residents of the far North. This will place a ceiling of \$50 on the air transportation tax on domestic flights. To offset the revenue loss, the rate of tax will be increased to 10 per cent from 9 per cent of the ticket price. These changes will be effective May 1, 1986 for tickets sold in Canada and August 1, 1986 for tickets sold outside Canada.



Release

Communiqué

Embargoed

Ottawa, February 26, 1986
86-40

PRIVATE SECTOR FUNDING FOR UNIVERSITY R&D TO BE ENCOURAGED

The Honourable Michael Wilson, Minister of Finance, today announced budget measures to increase federal support of university-based research and development and to encourage private sector contributions in the same field.

The measures involve financing channeled through three "granting councils" to support university-based research and the development of highly-trained personnel.

Mr. Wilson announced a \$300 million increase, over the next five years, in federal funding of the Natural Sciences and Engineering Research Council, the Medical Research Council and the Social Sciences and Humanities Research Council.

He said that, in addition, private sector contributions to these councils will be matched by the government on a dollar-for-dollar basis, to a maximum annual increase of 6 per cent of each council's budget in the previous year.

A related change in the income tax rules will ensure that the favourable tax provisions available for R&D expenditures will apply to payments made by a private business to these councils to fund research that can be used in the business, provided the R&D is related to the business of the taxpayer and the results are available to him for use in the business. In other cases, contributions will be treated as a gift to the Crown.

Over all, the new funding including the matching private sector contributions could involve over \$1 billion in total resources available to the granting councils over the next five years and would provide for annual growth in their budgets of up to 12 per cent per year after 1986-87.

Mr. Wilson said the resulting partnership between the private sector and university researchers would be as important as the dollars provided. "Contacts between the business and academic communities would be improved. And Canada would benefit from the more vigorous application of scientific knowledge to our industrial needs."

Release

Communiqué

Embargoed

Ottawa, February 26, 1986
86-39

BUDGET ANNOUNCES ATLANTIC ENTERPRISE PROGRAM

A major new job-creation initiative, the Atlantic Enterprise Program, was announced today by the Honourable Michael Wilson, Minister of Finance, in his budget.

The new program for Atlantic Canada and the Gaspé Peninsula will provide government guarantees for private sector loans up to a total of \$1 billion, and interest rate buy-downs of up to 6 percentage points, for business start-ups or expansions.

"This program is another example of how the government, working together with the private sector, can spend smarter," Mr. Wilson said. "Together we will generate significant financial assistance so that Atlantic Canada can share in our national prosperity."

The program will be supported by a private sector advisory committee, with members from the region who are knowledgeable about local conditions and opportunities.

To avoid duplication with existing federal and provincial programs, the Atlantic Enterprise Program will be limited to term loans of a minimum of \$250,000. It will apply to viable projects in need of assistance in manufacturing, processing and related service sectors, and in parts of the tourism and primary industries. Sponsors of eligible projects will be required to share the risk; the normal government guarantee will be 85 per cent of the loan.

Detailed objectives, criteria and operating procedures of the program will be announced by the Honourable Sinclair Stevens, Minister of Regional Industrial Expansion.



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Ottawa, February 26, 1986
86-38

BUDGET ANNOUNCES FARM FINANCIAL ASSISTANCE MEASURES

A financial assistance policy for farmers, including an innovative plan for commodity-based mortgages, was announced today by the Honourable Michael Wilson, Minister of Finance.

"Our farmers are caught in a vicious squeeze of low prices and rising costs; many are facing an intolerable debt burden," Mr. Wilson said. "This is not just an economic problem -- it is a social problem that must be addressed."

The Farm Credit Corporation (FCC) will establish a \$700 million loan program of commodity-based mortgages for existing FCC clients in financial difficulties but with reasonable long-term prospects. Mortgages will be provided at a basic interest rate of 6 per cent, and the principal amount of the loan will be adjusted according to a formula based on farm commodity prices.

This approach will allow mortgages that start at low monthly payments, increasing only as commodity prices rise and the farmer's ability to pay improves. Thus they will provide valuable up-front assistance.

Two other assistance measures are also proposed:

-- Legislation will be introduced to establish Farm Debt Review Panels to provide advice to farmers who require restructuring of their debts. The panels, composed of individuals knowledgeable in farming and financial matters, will establish whether a debt restructuring arrangement between a farmer and his creditors is feasible and will seek to facilitate voluntary arrangements between them.

-- The Canadian Rural Transition Program is being established to ease the transition for farmers who must seek alternative employment. It will offer job counselling, retraining and interim financial assistance.

These measures represent an additional federal financial commitment to Canadian farmers of \$65 million this year and \$130 million next year.

As further assistance, the fuel tax rebate of three cents a litre for off-highway use of gasoline and diesel fuel on farms will be extended for one year to January 1, 1988. New guidelines will be issued shortly to simplify the calculation required to separate on-highway and off-highway fuel use.

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86-37

BUDGET PROPOSES NEW MEASURES TO AID SMALL BUSINESSES

The Honourable Michael Wilson, Minister of Finance, today announced a series of budget proposals providing important benefits for small businesses.

"Small business is the most important source of jobs in Canada today," Mr. Wilson said. He noted that his first budget in May 1985 contained several measures to help the small business sector, and added that the new measures "reinforce our support for small business."

Major proposals involving small business:

Dividend Distributions: The existing tax of 12 1/2 per cent on dividend distributions by small businesses will be repealed, effective January 1, 1987, as part of more general changes proposed to the taxation of dividends. This will permit a significant simplification of the tax system for small business, and will facilitate the transfer of funds among small business members of corporate groups.

Lower Tax Rate: The existing low federal income tax rate on active earnings of small businesses will be reduced as part of the overall restructuring of the corporate income tax. This rate, now 15 per cent, will be lowered in stages to 14 per cent, effective July 1, 1987, and to 13 per cent July 1, 1988.

The federal tax rate on manufacturing and processing income of small business corporations will also be reduced, from 10 per cent to 8 per cent effective July 1, 1987.

Business Investment Losses: A broadened definition of a small business corporation will allow investors to make use of the allowable business investment loss provisions for investments in Canadian-controlled private corporations that are active outside Canada but are primarily carrying on an active business in Canada. Under the existing rules, to qualify for this loss provision a small business must be carrying on an active business almost exclusively within Canada. The broader tax rules allowing deduction of such losses will reduce the risk associated with investment in small business corporations.

Small Business Loans: The ceiling on total government-guaranteed loans under the Small Business Loans Act will be more than doubled from \$1 billion to \$2.5 billion. This program enables small businesses to expand by obtaining loans, guaranteed 85 per cent by the government, at an interest rate of 1 percentage point over prime lending rates.

an arrangement will be taxable for the employee on an accrual basis. The new rule will explicitly exclude pension and other registered plans and certain other prescribed arrangements such as teachers' sabbaticals and contract arrangements for professional athletes.

-- The ability of employers to defer tax by claiming deductions for unpaid remuneration, including accrued bonuses, will also be limited.

-- Under current law, a taxpayer who marries late in the year may claim the married exemption for a dependent spouse, reduced only by the spouse's income after the date of marriage. This is inappropriate where that spouse has a substantial income for the year as a whole. The new rule will base the exemption on the spouse's income for the whole year rather than from the date of marriage.

-- To improve the reporting of investment income, the requirements governing the issuance of information returns will be extended to purchases and sales of treasury bills, effective January 1, 1987. Holders of treasury bills will be required to furnish their social insurance numbers to dealers or other issuers of treasury bills.

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Ottawa, February 26, 1986
86-36

NEW RULES TO IMPROVE TAX FAIRNESS PROPOSED IN BUDGET

The Honourable Michael Wilson, Minister of Finance, today announced a series of budget steps to improve the fairness of the income tax system and reduce the proliferation of tax-motivated investments.

One major proposal will introduce new tax rules applying to limited partnerships -- a financing arrangement that has been used to shelter taxes by transferring to limited partners the benefits of tax deductions and credits generated by the business of the partnership.

"The new rules will cut back tax-motivated arrangements that can lead to high-income individuals and profitable corporations significantly reducing their taxes," Mr. Wilson said.

The budget proposes to limit the amount of investment tax credits and business losses that may be flowed out to limited partners to the amount of their investment that is actually at risk.

The Minister noted that limited partnership financings are of particular concern in cases where a limited partner is entitled to tax benefits worth more than the actual amount of his investment. This can result, for example, where tax benefits are generated by investing money borrowed by the limited partnership even though the limited partners are themselves not liable to repay the loans.

The new rules will also apply to general partnerships where the arrangement results in an effective limitation of partners' liability resembling that obtained from the use of a limited partnership.

To allow taxpayers time to adjust, the new rules will not apply to limited partnerships carrying on business on February 25, 1986. They will apply to new partnerships created after that date. They will also apply where there are substantial new capital contributions or substantial partnership borrowings after February 25, 1986, involving a limited partnership that was in existence on that date.

The budget proposes several other income tax amendments to prevent inappropriate tax deferrals and deductions and to ensure fuller reporting of investment income. Among these changes:

-- New provisions governing salary deferral arrangements will ensure that tax cannot be unduly deferred by an employee through delaying the actual receipt of compensation for services. Remuneration deferred under such

The share purchase tax credit, which allows investment tax credits to be flowed to outside investors, will expire at its scheduled termination at the end of 1986.

The provisions for the refund of unused investment tax credits earned in a year, which were due to expire at the end of April 1986, will be extended to the end of 1988.

Existing credits for research and development and for high-cost exploration are unchanged. scheduled termination at the end of 1986 at a reduced rate of 40 per cent. manufacturing investment in designated areas will be extended beyond its

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86-35

CORPORATE TAX RESTRUCTURING PLAN PRESENTED IN BUDGET

The first stage of a restructuring of the corporate income tax, withdrawing certain tax preferences in favour of lower tax rates, was announced today by the Honourable Michael Wilson, Minister of Finance, in his budget.

The proposals were first outlined in a discussion paper issued with the May 1985 budget. Mr. Wilson said their main thrust is "to reduce selective tax preferences and move to broader-based incentives through lower tax rates."

He added that the new measures "will enhance economic performance, provide incentives based on results, and contribute to deficit reduction." During the transition period to 1988-89 they will generate an additional \$765 million of net revenue.

Mr. Wilson said that this first phase of corporate tax restructuring will be followed by the publication later this year of a new discussion paper proposing further reductions in tax write-offs and further tax rate reductions.

The proposals in this budget will phase out the general investment tax credit by 1989 and eliminate the 3-per-cent inventory allowance deduction immediately. These changes will be accompanied by a three-step reduction in the basic federal corporate tax rate, starting July 1, 1987, from the present 36 per cent to 33 per cent of taxable income by 1989.

The special low rate for manufacturing companies will decline from 30 to 26 per cent over the same period. The special rate for small business will go from 15 to 13 per cent in two steps in 1987 and 1988, while the rate for small manufacturing business will be cut from 10 to 8 per cent in 1987. The present rate of tax on investment income of small business corporations will be maintained at its present rate of 36 per cent.

The changes are designed to reduce distortions that affect business investment decisions by spreading incentives, through lower tax rates, to a broader range of sectors, while preserving special low tax rates for small business and manufacturing.

Other tax incentives are continued, some with adjustments. For example, the 20-per-cent investment tax credit applying to Atlantic Canada and the Gaspé Peninsula will continue and be extended to include eligible investments in adjacent offshore areas. The Cape Breton investment tax credit of 60 per cent will remain, with improvements. The special investment tax credit for

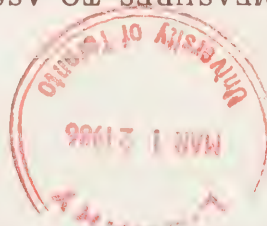
The budget also announced other measures to assist low-income Canadians:

- The disability deduction available to some 185,000 disabled Canadians will be increased by \$250 for 1986. The deduction will become \$2,860 for 1986, which will be increased by the indexing factor for subsequent years.
- The government is committing up to \$100 million a year for the next three years, to be matched by provincial government funding, to a special training program. This joint federal-provincial effort is designed to help Canadians on welfare to find employment.

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Ottawa, February 26, 1986
86-34

BUDGET AIMS NEW MEASURES TO ASSIST LOW-INCOME CANADIANS

New budget measures to assist Canadians in need were announced today by the Honourable Michael Wilson, Minister of Finance.

"The plight of low-income Canadians is of major concern to this government," Mr. Wilson said in his budget speech to the House of Commons. He noted that his May 1985 budget increased the child tax credit to provide greater assistance to low-income families.

A new system of advance payments of the child tax credit for 1986 and subsequent years will reduce by several months the waiting period for eligible families and reduce their need to use tax discounters.

The prepayment of the 1986 child tax credit will amount to \$300 per child -- about two-thirds of the maximum payment -- for recipients who had family incomes of \$15,000 or less in 1985. Claimants will receive this payment in November 1986 rather than having to wait until their applications are processed with their tax returns filed in early 1987.

About 1,000,000 families will benefit from the prepayment. Cheques will be sent based on information on 1985 tax returns, so that special applications will not have to be submitted. Payment of any remaining credit due will be made following the filing of the 1986 tax return.

The Minister also announced a new refundable sales tax credit of \$50 per adult and \$25 per child for families with incomes below \$15,000. Mr. Wilson described it as "a fundamental innovation to the income tax system to benefit low-income Canadians, many of whom are elderly".

The credit will be refundable so that families who pay no federal income tax will receive the full benefits. More than 4 million Canadian families and individuals will receive credit benefits under this proposal.

The credit will be paid in full where the claimant has up to \$15,000 of family net income as defined by the tax rules. Credits will be reduced by 5 per cent of family income over that amount. Thus, for example, a two-parent, two-child family will be entitled to a maximum credit of \$150, which will be reduced as the family's income increases from \$15,000 to \$18,000.

The new refundable sales tax credit will reduce federal revenues by \$330 million in the first year.

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Department of Finance
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Ministère des Finances
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86-53

Notes for an address
by the Honourable Barbara McDougall
Minister of State (Finance)
to the Tax Executives Institute, Inc.
Washington, D.C.



CHECK AGAINST DELIVERY

I welcome the opportunity to be with you tonight. It is always a pleasure to visit the capital to Canada's south. And speaking to TEI members and their guests -- a highly informed audience -- makes it all the more enjoyable.

I am particularly pleased to have received Charles Rau's invitation. He and several of your Canadian members visited Ottawa last December and met with officials in the departments of revenue and finance. The fact that I am here this evening shows that you are interested in hearing more about the Canadian government's fiscal and economic policies.

I am happy to say that there is a great deal more to talk about since last December, and not just policies, but results -- positive results. Let us start with the economic picture.

Our fourth quarter figures were released just last week. They confirm that our economy has performed substantially better in 1985 than most observers anticipated -- 4.5 per cent real growth. In fact, over the last year in Canada, real output is estimated to have increased at almost twice the pace of growth in the U.S. and substantially more than the rate in Europe.

Our employment in 1985 was higher and the unemployment rate lower than most observers had projected. The rate of job creation, for comparison's sake, was about 50 per cent higher in Canada last year than in the United States.

Perhaps most encouraging, the sources of strength in the Canadian economy are now primarily domestic. This is quite a change from the earlier stage of economic recovery when Canada's growth was powered by exports and closely tied to the U.S. expansion. Business investment is on an upward trend. Consumer demand has continued to be strong. Our good cost and productivity performance has helped strengthen Canada's competitive position.

Based on this performance, the economy is well poised to continue to grow. And actions taken by our government will continue to be instrumental in the economy's climb back to greater levels of prosperity.

I want to underline the words "greater prosperity". The fact is that over recent decades our economy has grown substantially and has become increasingly balanced. The profile of the Canadian economy is now very similar to that of the United States.

For example, manufacturing represents 21.2 per cent of Canada's gross domestic product, compared with 22.1 per cent in the United States. The primary sector of Canada's economy accounts for about 6.4 per cent of our output -- a much lower proportion than even many Canadians might imagine. In fact, the primary sector accounts for a slightly smaller share of Canada's GDP than it does in the United States. Like you, we have an increasingly diversified economy.

I am not suggesting that Canada has not had economic problems. Far from it. Just like all western industrialized nations we experienced problems in the early 1980s. But, Canada is now moving strongly forward again after a period of stagnation in the earlier part of this decade. Indeed, from the beginning of 1983 to the end of 1985, our economy has grown by 17.2 per cent compared to 13.8 per cent in the United States.

Over the past 18 months since our government took office, Canada has grown by 7.5 per cent compared with 2.9 per cent in the U.S. We have had much healthier productivity, profit and employment performance through this period. Let me briefly describe some of the transformations we have put in place to help achieve these results.

When we came to power, it was painfully obvious that action was needed to reinvigorate the Canadian economy. Despite the strong recovery from the 1981-82 recession that was under way in the United States, the expansion in Canadian domestic demand was hesitant and unemployment remained at a high level. Domestic and international confidence in Canada's capacity to manage its economic affairs had eroded.

This uncertainty was compounded by the inward-looking energy and foreign investment policies of the former government, the Foreign Investment Review Act and the National Energy Program. Those policies -- which were quickly addressed and repealed by our government -- stood in the way of the investment that Canada badly needed. We also took complementary and positive action to develop more sensitive regulatory regimes in transportation, financial institutions, competition policy -- and have seriously begun the process of returning many Crown corporations to the private sector.

But the greatest threat that Canada faced was the fiscal situation of the federal government. This had been allowed to worsen at an accelerating rate in the previous decade. It was evident that for too long Canadians had been paying for today -- and yesterday, for that matter -- with money borrowed against an increasingly uncertain tomorrow.

It was time for action to secure the future of the Canadian economy.

That is why, in November 1984, we began to implement a comprehensive strategy to come to grips with the country's economic problems and to secure economic renewal.

We set out three broad objectives in our Agenda for Economic Renewal. They are: to restore fiscal integrity; to encourage private initiative; and to improve the effectiveness of government. All three elements are keys to economic renewal. And we have carried them forward consistently in the economic statement of November 1984 and the budgets of May 1985 and February 1986.

Let us look at what has happened to the deficit since we began to take action to restore fiscal integrity.

In fiscal year 1984-85, the deficit measured \$38.2 billion. That is basically the deficit that our government inherited.

In fiscal year 1985-86, the deficit is being brought down to \$34.3 billion -- a 10 per cent drop. In the 1986-87 fiscal year beginning this April 1, the deficit will drop to \$29.5 billion and in the year following to \$25.9 billion. This will result in a cumulative reduction in the deficit by almost one-third in just three years.

If we look at the actual borrowing requirements of the federal budget, the performance is even better. Borrowing will drop from \$28.8 billion this year to \$22.6 billion next year and \$17.7 billion in 1987-88 -- a drop of 37 per cent in two years and a drop of over \$6 billion in the coming year. By 1990-91, based on quite conservative economic assumptions, these financing requirements will be down to \$11 billion or 1.7 per cent of GNP.

I might add that the financial requirements of the Canadian government can be roughly equated to the total deficit of the U.S. government.

If we applied the same economic assumptions for U.S. growth as the current U.S. Administration's medium-term forecast, the resulting economic growth in Canada would be sufficient as to eliminate financial requirements and to balance the budget on a national accounts basis by the end of the decade.

While prospective deficits in both Canada and the U.S. through to the end of the decade will be a product of unfolding economic circumstances, there is no doubt about what we have accomplished in Canada. Not only do we have a proven record of both expenditure and deficit reduction, but we have already introduced much of the legislation required to ensure that our excellent track record continues on into the future.

It is important to recognize that budgetary proposals in Canada are not proposals for negotiation and compromise. They represent the government's firm commitment and they will be implemented in accordance with our parliamentary tradition.

We have reversed the upward spiral of deficits. The deficit is on a firm downward path. And we intend to keep it on that path.

This is the result of our government's policies -- and a tough new approach to the management of government.

When Finance Minister Michael Wilson said on February 26, "the buck stops here", he was not just paying literary tribute to a former American president. He was making a statement of hard fact. The era of fiscal irresponsibility in Canada has come to an end.

To restore fiscal integrity, we have undertaken the most far-reaching program of expenditure control ever undertaken by any Canadian government. I am not just talking about the February 26 budget. The February measures must be considered together -- as a package -- with the steps already taken in the economic statement of November 1984 and the budget of May 1985.

We have cut spending in every department of government, starting at the top, with the Prime Minister's salary and with all Ministers. We proposed pay cuts for members of the House of Commons and the Senate -- and there will be no regular annual increase in the salaries of deputy ministers, assistant deputy ministers and equivalent political staff.

Ottawa, our nation's capital, will become leaner and more efficient. For instance, we are continuing to reduce the number of government employees. We have eliminated many wasteful and inefficient programs and are continuing to phase out others. These include energy conservation subsidies, heavy water plants, subsidies to the shipbuilding industry, subsidies to the petroleum industry, subsidies to passenger rail transport and others that are listed in detail in the budget documents. We are slowing the rate of growth of other programs: family benefits, transfers to the provincial governments for health and education, defence and foreign aid. We are forcing better management by Ministers and senior bureaucrats by restraining access to additional funds so that priorities within government departments and among programs are being reordered in response to changing needs.

The results are impressive. This year, which ends at the end of this month, the government's actual spending on programs will be lower than it was last year. As a share of our GNP, program spending will fall this year by 1.5 percentage points -- from the 20.6 per cent we inherited to 19.1 per cent. These are not future plans. They are actual results.

As a comparison, federal program spending in the United States was 20.4 per cent of GNP at the beginning of the 1980s and for the year ended September 30, 1985 was 20.7 per cent of GNP.

Our plan is to go further. We will, over the next two years, reduce our spending on programs to 17.3 per cent of GNP -- a reduction of 3.3 percentage points over three years. Revenues over the same period will rise from 16.8 per cent of GNP, to 17.9 per cent of GNP, an increase of 1.1 percentage points. Thus, relative to our economy, every additional dollar of tax revenue will be more than matched by three dollars of program cuts.

That is our short-term plan. In our first year we have delivered.

With our measures, by the end of the decade, government spending on programs as a share of the economy will be cut back to the levels of the early 1960s. Discretionary program spending has come down in 1985-86; it will be less in 1987-88 than it was in 1984-85; and by 1990-91, it will be down 20 per cent in real terms -- not compared to previous projections, but to actual spending in 1984-85.

All these actions force a new and needed discipline on the system. Still, we have had to face the fact that the billions we will save through better management are not enough to resolve Canada's financial problems.

We have increased taxes. But let me get right to the point: contrary to what some observers have said, our tax policy is not a "tax grab". Despite the tax increase, the proportion of taxes to GNP will still be lower in 1990-91 than in 1974-75. And they are also lower for the Canadian federal government than in the U.S. -- assuming the President's budget proposals are accepted.

We are restoring the balance between expenditures and taxation to more normal levels. We have increased our tax revenues with a careful balance of measures designed to spread the burden of deficit reduction while strengthening the basic integrity of the tax system. And that means plugging revenue leaks, closing loopholes and taking a hard look at a number of tax expenditures.

Since coming to office, we have taken a great many steps to prevent erosion of the tax base while making the tax system less of a driving factor in economic decision-making.

Tax shelters based on investments in yachts, recreational vehicles and similar properties have been eliminated.

Income-splitting through interest-free loans between family members is no longer permitted.

Trusts are now prevented from distributing investment income tax-free.

The use of partnerships in corporate takeovers to increase tax deductions has been terminated.

We ended the abuse of the scientific research tax credit which had often been used inappropriately.

I could go on, but I think you get the idea -- we are dead serious about reducing the incidence of tax-motivated economic decision-making and increasing the attractiveness of market-driven investments. We intend to rid the tax system of the impression of unfairness which can result in attempts to evade taxation.

As tax specialists you may have heard the occasional comment about the tax system -- American or Canadian -- being a bit complicated.

Our government agrees. And we are moving carefully to streamline and simplify where possible to make the system more effective in promoting productive economic activity.

Last May, we issued a discussion paper entitled "The Corporate Tax System: A Direction for Change". The thrust of that proposal was to reduce selective tax preferences and move to broader-based incentives through lower tax rates. Our reforms are under way and are generally similar to those under discussion in the U.S.

We know that a competitive Canadian economy is crucial to sustained economic growth and job creation. Our government initiated talks with the U.S. to further liberalize trade between Canada and the United States. And this will certainly encourage competition. And competitiveness will also be enhanced by a more effective corporate tax system -- with both lower rates and fewer tax expenditures that contribute to market distortions.

In the February 1986 budget, we implemented the first phase of this restructuring. We eliminated the 3 per cent inventory allowance and will be phasing out -- starting next year -- the general investment tax credit, while continuing special tax credits for the slow-growth regions of Atlantic Canada and the Gaspé Peninsula, and for research and development.

Corporate tax rates will be reduced over a three-year period beginning July 1, 1987. By 1989, the basic federal corporate rate will have been reduced from 36 per cent to 33 per cent of taxable income.

Manufacturing companies will continue to have a lower tax rate, falling from 30 per cent to 26 per cent by 1989.

The federal tax rate for small business will fall from 15 per cent to 13 per cent.

These actions are only the first phase of corporate tax reform. We will be releasing a new discussion paper later this year to propose further reductions in tax preferences and further tax rate reductions -- consistent with the principles set out in the May 1985 budget paper.

In addition, the 1986 budget proposes important changes to the tax treatment of dividends. The proposals help to simplify further the tax system for small business while ensuring that investors continue to have a significant incentive to buy dividend-producing shares.

The lifetime \$500,000 capital gains tax exemption introduced in May 1985 of course provides a powerful incentive for investment in growth-oriented shares. I am pleased to note that 1985 was an excellent year for equity investment in Canada. Obviously, we are also dead serious about getting Canadians to become more aggressive in their investments, more willing to put money into growth, with its attendant risks and rewards. These measures will enhance Canada's economic performance, provide incentives based on results and contribute to deficit reduction.

The budget also ensures that corporations and individuals pay a share of the costs of restoring fiscal stability. The current surtax on large corporations -- which expires at the end of 1986 -- will be replaced by a 3 per cent surtax on all corporations effective January 1, 1987. In addition, we announced a 3 per cent surtax to be imposed on federal personal income taxes commencing July 1, 1986.

Rates of federal sales tax will also be increased by one percentage point effective April 1 this year. However, for families and individuals with incomes below \$15,000, the government will provide a refundable sales tax credit of \$50 per adult and \$25 per child.

We realize these tax increases will make greater demands on Canadians. But they also help to make it clear to Canadians that our deficit and debt problem can no longer be tolerated.

Judging by the positive response to the budget of February 26, Canadians increasingly understand that successful deficit reduction pays both financial and economic dividends now and over the long term.

To us, cutting the deficit is not, after all, an end in itself. It is a means to an end. Our objective -- upon taking office and now -- is to solve the problems of the past in order to create economic growth and jobs today and into the future.

Our government is also moving forward on sales tax reform. Discussions on a better sales tax system have been going on for a long time. The problems with the current system are well known. It results in serious inequities among competing business firms. It puts Canadian manufacturers at a competitive disadvantage relative to importers. It results in hidden taxes on exports. Canada is now the only industrialized country in the world that still imposes a sales tax at the manufacturers' level.

We intend to bring our sales tax system into line with today's realities.

Many of you are aware that officials in the Department of Finance have been examining the value-added tax. They are also looking at alternative systems, -- including a business transfer tax -- which involve less administrative complexity and paper burden.

A complete review of the options is expected in the very near future -- along with a paper with a concrete proposal for public discussion. We intend to move to a new system that will encourage growth, improve equity, and yield revenues sufficient to replace the federal sales tax, to end the surtaxes announced in the budget and to provide adequate offsets for low-income Canadians.

We have already begun a reform of the Canadian social assistance system to ensure that benefits reach those most in need and to make better use of scarce resources. We partially deindexed the family allowance and the child tax credit and we appointed the a commission to look into the unemployment insurance system.

The Minister of Finance is reviewing all social assistance programs, including tax-based assistance, as part of an ongoing review designed to ensure the fairness and effectiveness of government social programs. This review is based on four key principles: to preserve universal access; direct more resources to those most in need; improve the opportunities for individuals to become self-reliant; and reduce the after-tax value of benefits going to higher-income Canadians who do not need assistance.

Above all, the February 26 budget can be seen as a continuation of our economic renewal strategy. It is consistent with the commitment we made to Canadians in November of 1984. It is only the latest part of our ongoing strategy to restore fiscal integrity, make government more effective and encourage private initiative in the Canadian economy. It is a strategy that builds on success. And the strategy is working.

Success is already evident in the strong growth experienced in the Canadian economy and in the record number of jobs created. Canadians have responded to the challenges of economic renewal.

The budget is projecting real growth of 3.7 per cent in 1986, one of the highest rates of growth among the industrialized countries. For 1987, we expect growth of a further 3 per cent.

Current levels of interest rates are unusually high -- as a result of temporary pressures in the foreign exchange markets. But, once these pressures have abated, interest rates should return to levels more in tune with the fundamental economic situation.

This government has acted to restore fiscal responsibility in Canada. We are spending less -- spending smarter -- to make better use of scarce financial resources to build the foundation for a better future.

Our efforts as a government will continue -- with determination -- and as a nation -- with pride. And all the world can look upon us -- with confidence.

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Department of Finance
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Ministère des Finances
Canada

Release

Communiqué

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Notes for an address
by the Honourable Barbara McDougall
Minister of State (Finance)
to the Toronto Association
of Business Economists



Toronto
March 12, 1986

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CHECK AGAINST DELIVERY

Thank you for inviting me to be with you today. I always enjoy coming home to Toronto to discuss important fiscal and economic policies with a well-informed group.

I want to begin by drawing your attention to a remark attributed to U.S. Senator Ernest Hollings. As one of the authors of the Gramm-Rudman-Hollings formula to eliminate the American deficit, he is certainly a person to be contended with. Here's his definition of an economist:

"Economist: someone who finds something in practice and wonders if it would work in theory."

Since this is an audience of practical-minded business economists, I know that definition does not apply to any of you. Yet, I have noticed a certain relevance to Senator Hollings' remark in the continuing debate about the economic and fiscal policies of the Canadian government.

The government's policies have worked and are working in practice.

They have worked to end the spiral of annual deficits.

They are working to put those deficits firmly on a downward path.

They have worked to support vigorous economic growth and job creation.

And all of this has happened amid clear evidence that Canadians are accepting the economic renewal challenge raised by the government in November 1984. They are accepting the need for some fundamental re-adjustments to ensure Canada's ability to hold its own in a tough economic world.

On the whole, the reaction of Canadians to the February 26 budget has been positive. It is widely acknowledged that we are making real progress in solving economic and fiscal problems. Yet, while economic renewal works in practice, there is no shortage of commentators who argue that the government's policies cannot continue to work in the hypothetical future.

Some of them are professional cynics. Some are habitual worry-warts. But many of them have just not been able to adjust to the idea that Canada is once again on track for economic success.

We are going to be winners, not losers. That does take some getting used to.

Today I want to tell you why and how our policies have worked, are working and will continue to work to bring about the renewal of the Canadian economy.

It is important to understand that our February 26 budget is the third installment in our economic renewal strategy. It is the logical next step in a series that began with the November 1984 economic statement and carried forward in the budgets of May 1985 and last month.

Our approach to economic renewal is comprehensive and it is consistent. We told you in November 1984 where we want to go. We have identified three basic goals which are essential to Canada's full economic renewal. They are: to restore fiscal integrity; to make government more effective; and to encourage private initiative.

Since coming to office we have acted to advance these goals across the entire range of government programs and operations.

When we came to office, the Canadian recovery from the 1981-82 recession continued to lag the strong recovery that was under way in the United States. Domestic and international confidence in Canada's capacity to manage its fiscal and economic affairs had eroded.

We immediately identified the deficit and growing national debt as the single most serious threat facing the economy. It was evident that for too long Canadians had been paying for today -- and yesterday -- with money borrowed against an increasingly uncertain tomorrow.

We knew we must take action to reduce the deficit and to control the national debt which had been allowed to worsen at an accelerating rate in the previous decade. But we also knew that we would have to make clear to Canadians that deficit reduction is a means to an end, a way to help secure the future of the Canadian economy as a part of broad-based, long-term strategy. It was and is a major undertaking.

We started with a federal deficit measuring \$38.2 billion in fiscal year 1984-85. That is basically the deficit we inherited. We also assumed a national debt that had grown at an average annual rate of 23 per cent for the previous 10 years.

We set out some key fiscal goals to guide us along the path toward fiscal responsibility.

First, stop the upward spiral of deficits. We did that.

Second, deliver the 1985-86 deficit substantially lower than the previous year. We have done that. The deficit will be more than 10 per cent lower. The actions of November 1984 and May 1985 made sure of that.

Third, bring that lower deficit in at the same figure that we projected in the May 1985 budget. We are doing that -- and we are doing it in spite of some unexpected additional fiscal pressures along the way.

Fourth, get the 1986-87 deficit under \$30 billion. We are doing it. The necessary measures are in place to reduce the deficit to \$29.5 billion. It is important that Canadians understand the magnitude of these financial achievements. In recent years, our annual deficit has exceeded \$30 billion. That automatically added another \$3 billion of interest costs to next year's spending. We had to find \$3 billion just to stay even, and \$7 billion to reduce the deficit by \$4 billion, as we have done this year.

Fifth, reduce the deficit systematically in the years ahead. Under the current fiscal framework, the deficit drops to \$25.9 billion in 1987-88 and to \$22 billion by 1990-91. Those projections are based on assumptions of moderate economic growth, well below the projected growth rates on which U.S. deficit forecasts are currently based.

Sixth, stop the national debt from growing faster than the economy within a reasonable period. That goal is in sight for 1990-91.

A look at the actual borrowing requirements of the federal budget shows an even better picture. Borrowing will drop from \$28.8 billion this year to \$22.6 billion next year and to \$17.7 billion in 1987-88 -- a drop of 37 per cent in just two years and a drop of over \$6 billion in the coming fiscal year. By 1990-91, based on quite conservative economic assumptions, these financing requirements will be down to \$11 billion or 1.7 per cent of GNP.

The era of fiscal irresponsibility in Canada has come to an end.

Most Canadians understand why we have to bring down the deficit. There are better uses for the money that is now merely paying interest on our national debt.

It is equally important to understand how we are going about it.

First, we have initiated the most far-reaching program of expenditure control ever undertaken by any Canadian government.

I am referring not just to the February 1986 budget, but to the package of measures we have introduced since November 1984.

The cumulative impact of this three-part package is to ensure that expenditure reductions will account for fully 70 per cent of all deficit reduction in the five-year planning period to 1990-91.

Between 1984-85 and 1987-88 for example, we will cut expenditures by \$3 for every \$1 we raise in extra taxes, relative to the size of the economy.

Through program elimination, spending restraint and better management, we will hold discretionary spending to an annual increase of 2.7 per cent over the next five years -- well below the rate of inflation. Total program spending will increase by 3.2 per cent a year -- again below the rate of inflation. In fact, in 1985-86 we will reduce non-statutory spending by over 5 per cent -- a significant drop in spending.

As a result of our tough measures, federal programs in 1990-91 -- that is, total spending excluding interest payments -- will shrink to the same share of the economy as in the early 1960s.

We are making government leaner, more efficient and less intrusive in the economy.

Still, we had to face the fact that the billions we will save through better management are not enough to resolve Canada's fiscal problems.

We have increased taxes, too. We know that these measures will be tough on many Canadians. But, contrary to what some observers have said, our tax policy is not a "tax grab" -- and it is certainly not aimed at any one group or sector of the economy. We have drawn our increased tax revenues from the full range of personal and corporate and commodity tax systems. And in each case we have tried to ensure that those with the ability carry the greatest burden.

Moreover, despite the tax increase, the proportion of federal taxes to GNP will still be lower in 1990-91 than in 1974-75.

We have carefully balanced the increased tax revenues with expenditure reductions. We are restoring the balance between expenditures and taxation to more normal levels.

Our tax measures since coming to office have strengthened the basic integrity of the tax system. That means protecting revenues and ensuring incentives are effective. We are taking a hard look at a number of tax expenditures.

We have eliminated tax shelters based on investments in yachts, recreational vehicles and similar properties. We have addressed, as well, the issues of income-splitting through interest-free loans between family members; of trusts distributing investment income tax-free; and of the abuse of the scientific research tax credit. Our February budget continues to build on our proven record of action with, for example, the introduction of new "at risk" rules for limited partnerships.

The point to our actions is to encourage economic decision-making based, not on tax benefits, but on the attractiveness of market-driven investments. At the same time, we are making the tax rules fairer, which is important by itself and important in supporting the self-assessment nature of our system.

And we are moving to streamline and simplify the tax system where possible to make it more effective in promoting productive economic activity.

Last May, we issued a discussion paper entitled "The Corporate Tax System: A Direction for Change". The thrust of that proposal was to reduce selective tax preferences and move to broader-based incentives through lower tax rates.

We know that a competitive Canadian economy is crucial to sustained economic growth and job creation. Competitiveness will be enhanced by a more effective corporate tax system -- with both lower rates and fewer tax expenditures that contribute to market distortions. This is the direction in which Britain and the United States are moving, and our action ensures that Canada will keep in step by maintaining a competitive tax environment.

The February budget implements phase one of our plan to restructure the corporate income tax to meet these goals.

We eliminated the 3 per cent inventory allowance and will be phasing out -- starting next year -- the general investment tax credit, while continuing special tax credits for the slow-growth regions and for research and development.

Corporate tax rates will be reduced over a three-year period beginning July 1, 1987. By 1990, the basic federal corporate rate will have been reduced from 36 per cent to 33 per cent of taxable income.

Manufacturing companies will continue to have a lower federal tax rate, falling from 30 per cent to 26 per cent by 1989.

These actions are only the first phase of corporate tax reform. We will be releasing a new discussion paper later this year to propose further reductions in tax preferences and further tax rate reductions -- consistent with the principles set out in the May 1985 budget paper.

We intend to move on the matter of the federal manufacturers' sales tax. Canada is now the only industrialized country in the world that still imposes a sales tax at the manufacturers' level.

As many of you are aware, officials in the Department of Finance have examined the value-added tax. They are now also looking at alternative systems -- including a business transfer tax -- which involve less administrative complexity and paper burden.

A discussion paper will be released before long, including a concrete proposal for public discussion. We hope to be able to move to a new system that will encourage growth, improve equity and yield revenues sufficient to replace the federal sales tax, to end the surtaxes announced in the budget and to provide adequate offsets for low-income Canadians.

Small business will benefit significantly from the corporate tax restructuring, as well as from other measures in the budget. The tax rate on small business income will be reduced from 15 per cent to 13 per cent, beginning July 1, 1987. The tax rate on small business manufacturing income will be reduced from 10 per cent to 8 per cent. The amount of guaranteed loans under the Small Business Loans Act will be doubled to allow greater access to financing.

In addition to this, the 1986 budget proposes important changes to the tax treatment of dividends. The proposals further simplify the tax system for small business through the elimination of the 12 1/2 per cent small business dividend

distribution tax. Although the change reduces the dividend tax credit, individual investors will continue to have a significant incentive to buy dividend-paying shares.

The lifetime \$500,000 capital gains tax exemption introduced in May 1985 provides a powerful incentive for investment in growth-oriented shares. I am pleased to note that 1985 was an excellent year for equity investment in Canada.

These measures reinforce our commitment to private initiative, and to small business in particular, as a major agent of job creation. The spirit of private initiative has demonstrated a remarkable capacity to provide jobs for Canadians over the past year. Its capacity to be the powerhouse of economic growth has been borne out in Canada's economic performance.

Our economy has done substantially better in 1985 than most observers anticipated -- 4.5 per cent real growth. In fact, economic growth during the past 18 months has been outstanding -- equalled only by Japan among the major industrialized nations.

Our rate of job creation is impressive -- about 50 per cent higher here than in the United States last year. Our unemployment rate dropped below 10 per cent two months ago and it stayed there last month.

Perhaps the most encouraging news is that the sources of strength in our economy are now primarily domestic. This is a dramatic change from the earlier stage of economic recovery when our growth was powered by exports and closely tied to the U.S. expansion. Business investment has strengthened, housing starts have been buoyant and consumer demand has been encouraging. At the same time, our cost and productivity performance has helped to strengthen our competitive position.

Based on this performance, our economy is ready to continue to grow. You may be sure that actions taken by our government will continue to be instrumental in the economy's climb to greater levels of prosperity.

The economic outlook is for continuing growth and job creation at rates that compare favourably with the best in the industrialized world.

The budget is firmly rooted in our unwavering confidence in the capacity of Canadians in the private sector to continue meeting the challenge of economic renewal.

And I am pleased that the response from Canadians has been so positive and supportive. To me it signals a general understanding of the need for a nationwide partnership to come to grips with the economic and financial problems facing our nation. It tells me, too, that Canadians agree with the tough measures we are taking to correct long-standing problems and to rejuvenate the economy.

Judging by the generally positive response from the business community in particular there is also strong recognition that successful deficit reduction pays both financial and economic dividends now and over the long term.

I cannot over-emphasize the point. The government has set a policy course designed to get us where we want to go, one successful step at a time, with each step leading to another in a consistent, comprehensive program of action.

I am well aware of those who have called for more drastic action, those who say the budget was not tough enough. Others say we could solve the unemployment problem by forgetting about the deficit. Obviously there are still some people around who dream of a one-punch knockout victory in the fight to restore fiscal health and full productive capacity to our economy.

That sort of fantasy may work well for Rocky on the silver screen, but it does not do much for fiscal and economic problems facing Canada. Our national debt does not have a glass jaw. Our international competitors are not going to take a dive for Canada. Winning the match requires scoring consistently on a comprehensive basis, year after year. And that's what our economic renewal strategy is doing.

The actions our government has taken, including the February 26 budget, are a continuation of the commitment to economic renewal we gave Canadians in November 1984.

We are doing what we said. Our policies are working. And they will continue to work for the benefit of all Canadians.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

CAI
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86-57

For immediate release

Publication immédiate

Ottawa, March 14, 1986

Ottawa, le 14 mars 1986

MONTHLY STATEMENTS OF
FINANCIAL OPERATIONS

ETATS MENSUELS DES
OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for December 1985 and the first nine months of the 1985-86 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de décembre 1985 et les neuf premiers mois de l'année financière 1985-86.

For December 1985, budgetary revenues were \$6,516 million, budgetary expenditures were \$8,803 million and there was a deficit of \$2,287 million. For December 1984, revenues were \$5,456 million, expenditures were \$8,141 million and there was a deficit of \$2,685 million.

Les chiffres budgétaires de décembre 1985 montrent des recettes de \$6,516 millions, des dépenses de \$8,803 millions et un déficit de \$2,287 millions. En décembre 1984, les recettes s'établissaient à \$5,456 millions, les dépenses à \$8,141 millions et le déficit à \$2,685 millions.

For the first nine months of the 1985-86 fiscal year, revenues were \$48,159 million, expenditures were \$72,573 million and there was a deficit of \$24,414 million. For the same period last year, revenues were \$43,267 million, expenditures were \$68,308 million and there was a deficit of \$25,041 million.

Les neuf premiers mois de l'année financière 1985-86 ont produit des recettes de \$48,159 millions contre des dépenses de \$72,573 millions d'où un déficit de \$24,414 millions. La période correspondante de l'an dernier avait donné des recettes de \$43,267 millions, des dépenses de \$68,308 millions et un déficit de \$25,041 millions.

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Communiqué

Immediate release

Ottawa, March 26, 1986
86-62

CHANGES AFFECTING ADMINISTRATION OF PART VIII TAXES ANNOUNCED

The Honourable Michael Wilson, Minister of Finance, today had a Notice of Ways and Means Motion to amend provisions of the Income Tax Act relating to the refundable Part VIII taxes in respect of scientific research tax credit (SRTC) designations tabled in the House of Commons.

Part VIII tax is a special tax applied to corporations as part of the SRTC mechanism. The tax is equal to the amount of the special tax credits made available to investors who purchased SRTC securities from a corporation. This special tax is reduced or refunded as the corporation makes expenditures for scientific research and experimental development (R&D).

The Minister expressed concern with a recent court decision which held that, under the existing law, tax authorities are not allowed to collect Part VIII tax from a corporation, even though it is currently payable, until after the time that the corporation is required to file its income tax return for the year.

"This is not the intention of the legislation and I am, therefore, introducing amendments to clarify that Part VIII tax may be assessed and collected as soon as it becomes payable," the Minister said. The Minister also said that the taxes in dispute rules under the Income Tax Act -- which permit taxpayers to defer payment of tax or to claim a refund of tax already paid by objecting to, or appealing from, an assessment -- would no longer be applicable to the Part VIII tax.

"I have been advised that there have been cases in which taxpayers who control corporations have raised funds under the SRTC mechanism and emigrated with the funds without paying Part VIII tax. The potential for this type of abuse is multiplied by the recent interpretations of the legislation authorizing collection of the Part VIII tax. I have, therefore, introduced amendments clarifying the intention of the Part VIII tax rules."

For further information, please contact:

Daniel MacIntosh (613) 992-5632
or
Gérard Lalonde (613) 992-4851
Tax Policy-Legislation Division



Release

Communiqué

Immediate release

Ottawa, March 27, 1986

86-63

DEFINITION OF CANADIAN EXPLORATION EXPENSE

The Honourable Michael Wilson, Minister of Finance, announced today that a new definition of oil and gas exploration for income tax purposes will come into force on April 1, 1987. Draft legislation on the new definition will be released shortly.

The new definition was first set out in a press release issued on December 31, 1985 and was scheduled to come into effect April 1, 1986. Following extensive consultations with the industry, several modifications are being made which, the Minister said, "will improve the definition from a technical viewpoint, and better characterize the difference between exploration and development expenditures".

The modifications provide taxpayers an additional six months following the end of a tax year to determine whether a well has been abandoned or whether it resulted in the discovery of a new accumulation of hydrocarbons. Abandonment costs of unsuccessful wells will receive exploration treatment for tax purposes, deductible at a rate of 100 per cent. The production criterion has been revised so that production will be considered to be "commercial" only if it is in excess of amounts required for testing or other prescribed uses. Also, a mechanism will be provided so that qualifying expenses in respect of a high-cost well (over \$5 million) that will not produce within two years following the completion of its drilling will receive exploration treatment from the outset.

The new definition was originally scheduled to come into effect on April 1, 1986. The old definition of Canadian exploration expense (from the pre-1986 period) will continue in force in the interim period until April 1, 1987.

The minister noted, "I am sensitive to the impact of the current uncertainty over oil prices on activity in the oil and gas sector in Western Canada. Accordingly, the extension of the implementation date for the new definition will provide additional time for industry to adjust to the new rules. This will also provide the government with time to discuss the mechanism for high cost wells."

Revenue Canada will continue its present interpretation of the words "its completion" found in the old definition until April 1, 1987.

The Minister thanked the industry for its constructive comments during the consultation process.

For further information, contact:

R.I. Simkover
Tax Policy and Legislation Branch
(613) 992-1541

Release

Communiqué

Immediate release

Ottawa, April 1, 1986

86-64

INTERNATIONAL BANKING CENTRE REPORT RELEASED

The Honourable Michael Wilson, Minister of Finance, today announced the release of a report on international banking centres in Canada. Commissioned by the Department of Finance in 1984, the report was prepared by Louis Rasminsky and William Lawson, former Governor and Deputy Governor of the Bank of Canada.

In his budget speech February 26, the minister announced that the government was prepared to facilitate the establishment of international banking centres in Vancouver and Montreal.

In releasing the report, Mr. Wilson said he intends to consult with provincial governments and members of the banking community in the near future. He added that the report should prove useful in the context of those discussions.

Copies of the report may be obtained from the Department of Finance at the following address:

Distribution Centre
Department of Finance
160 Elgin Street
Place Bell Canada
Ottawa, Ontario
K1A 0G5

(613) - 995-2855

Release

Communiqué

Immediate release

Ottawa, April 2, 1986

86-65

INVESTMENT IN SMALL BUSINESSES BY PENSION PLANS

The Honourable Michael Wilson, Minister of Finance, today released final regulations relating to the measures contained in his May 23, 1985 budget to encourage investment in small and developing businesses by registered pension and other retirement plans.

As a result of extensive consultations with various interest groups following the release of draft regulations relating to these measures on November 1, 1985, several modifications have been made to the draft regulations. The main changes are outlined in the attached background note.

"These changes are intended to provide investors with more flexibility in arranging investments, greater access in the case of small start-up investments, and greater certainty with respect to qualifying investments," Mr. Wilson said.

The Minister emphasized that the government is committed to ensuring the availability of adequate equity financing for small and developing businesses. Accordingly, the impact of these measures will be assessed on an ongoing basis.

The full text of the regulations is attached. They are scheduled to be published in the Canada Gazette on April 16.

For further information:

A. MacNevin (613)992-2861
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INVESTMENT IN SMALL AND DEVELOPING BUSINESSES
BY PENSION AND OTHER DEFERRED INCOME PLANS

The May 1985 Budget proposed several measures to assist small and developing businesses in obtaining equity financing from registered pension plans, registered retirement savings plans (RRSPs), deferred profit sharing plans (DPSPs) and registered retirement income funds (RRIFs). As a result of these initiatives:

1. RRSPs and RRIFs can make arm's length investments in the shares of eligible Canadian corporations.
2. Pension plans can establish tax-exempt small business investment corporations (SBICs) to facilitate new investment in small and developing businesses.
3. Pension and other retirement plans can invest in small business investment limited partnerships (SBILPs) and small business investment trusts (SBITs) without these investments being considered foreign property. SBILPs and SBITs are pooling vehicles designed to facilitate new investment in small and developing businesses.
4. Pension and other retirement plans that invest in qualified investments will be permitted to expand their foreign property holdings. Qualified investments include direct investments as well as interests in SBICs, SBILPs or SBITs acquired after October 31, 1985.

Draft regulations relating to these measures were released on November 1, 1985. Extensive consultations were subsequently held with the small business community, pension fund managers, venture capitalists and other interested parties, and as a result, several modifications have been made in finalizing these regulations. The main changes are described below.

RRSP/RRIF Qualified Investments - Designated Shareholder -
Subsection 4901(2)

The draft regulations limited an equity investment of an RRSP/RRIF in a corporation to less than 10% of a class of shares of its capital stock. This 10% limit has been removed for investments of less than \$25,000 to facilitate small equity investments. The arm's length requirement has not been changed however, which effectively limits to 50% the ownership of voting shares of an eligible corporation.

Eligible Corporation and Qualifying Active Business -
Subsection 5100(1)

The draft regulations required that all or substantially all of the assets of an eligible corporation be used by it in carrying on a qualifying active business. Two changes have been made to the relevant definitions. First, holding companies whose subsidiaries are eligible corporations qualify as eligible corporations. Second, in

the definition of qualifying active business, a business is considered to be carried on "primarily in Canada" if at least 50% of the employees employed in respect of the business are employed in Canada or at least 50% of the wages paid to employees employed in respect of the business are attributable to services rendered in Canada. If neither test is met, the determination of whether the business is being carried on primarily in Canada is a question of fact.

SBIC/SBILP/SBIT - Sections 5101, 5102 and 5103

There have been several changes to the definitions in the draft regulations of the small business investment vehicles. First, the maximum amount of cash or near cash assets that can be held by a SBIC, SBILP or SBIT and the rate at which its funds must be invested have been changed. The final investment target has been reduced to 75% and, in the case of SBILPs and SBITs, the investment period has been extended from 2 to 3 years. Second, the draft regulations limited the equity investments of the SBIC, SBILP or SBIT to treasury shares of eligible corporations. This restriction has been relaxed to allow a SBIC, SBILP or SBIT to acquire voting shares from employees. Third, under the draft regulations SBILPs and SBITs could not own more than 30% of the voting shares of eligible corporations, except in certain specified circumstances. To facilitate start-up investments, this limit has been removed. Finally, the requirement in the draft regulations that no person could own more than 30% of the units in a SBILP or SBIT no longer applies to a SBIC in which no person owns more than 30% of the shares.

Small Business Security - Subsection 5100(2)

In the draft regulations, shares and certain unsecured or subordinated debt of eligible corporations were the only investments included in the definition of small business security. Several changes have been made to this definition. First, options, warrants and rights to acquire shares granted by eligible corporations have been included, provided they are received in conjunction with the issue of shares or debt that qualify as small business securities, or are received for no consideration (for example, a rights issue). Second, the final regulations clarify the types of debt obligations that qualify as small business securities. Debt obligations can either be unsecured or secured by a floating charge. In the latter case, the debt must be subordinate to all other debt of the corporation (except unsecured shareholder debt or debt that qualifies as a small business security), and its terms must not include any negative covenant precluding the corporation from incurring additional debt. Third, the maximum interest rate on such debt obligations is to be determined by reference to the highest prime lending rate of the banks to which Schedule A of the Bank Act applies. This change allows for currently prevailing interest rates to be utilized in such debt obligations. Finally, certain debt obligations of SBICs and corporations described in paragraph 149(1)(o.2) of the Act constitute small business securities. This change allows pension funds that acquire such debt

obligations to hold additional foreign property, reflecting their indirect investment in small business securities or interests in SBILPs or SBITs which are acquired by the corporation.

Qualified Limited Partnership - Subsection 5000(7)

The regulations provide that, after 1985, limited partnership interests in a "qualified limited partnership" (QLP) will not be considered to be foreign property. This new measure is intended to complement the measures announced in the May 1985 Budget. With the exception of interests in SBILPs, all limited partnership interests would otherwise be considered foreign property. The QLP provides a partnership alternative to the existing pooled fund and mutual fund trust vehicles.

Set out below are the significant conditions that apply to the QLP.

1. Subject to a 10% foreign property limit, a QLP must restrict its investments to cash or near cash assets and shares, debt, options, warrants and rights of Canadian corporations.
2. The limited partnership interests ("units") in a QLP must be identical in all respects.
3. No limited partner or group of limited partners who do not deal at arm's length may hold more than 30% of the units of the QLP.
4. The general partner's share of income, as general partner, is restricted to prevent income streaming. These restrictions parallel the provisions applying to SBILPs.
5. A QLP may not invest in any other trust or partnership and will lose its status if an election is made under subsection 97(2) with respect to its acquisition of any property.

HER EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL, on
the recommendation of the Minister of Finance, pursuant to
section 221* of the Income Tax Act, is pleased hereby to
amend the Income Tax Regulations, C.R.C., c. 945, in accordance
with the schedule hereto.

*S.C. 1970-71-72, c. 63, s. 1

SCHEDULE

1. All that portion of subsection 400(2) of the Income Tax Regulations preceding paragraph (a) thereof is revoked and the following substituted therefor:

"(2) For the purposes of this Part and subsection 112(2) of the Act, "permanent establishment" means a fixed place of business of the corporation, including an office, a branch, a mine, an oil well, a farm, a timberland, a factory, a workshop or a warehouse, and"

2.(1) Subsection 4900(1)¹ of the said Regulations is amended by striking out the word "or" at the end of paragraph (j) thereof, by adding the word "or" at the end of paragraph (k) thereof and by adding thereto the following paragraph:

"(1) a bond, debenture, note or similar obligation issued or guaranteed by

(i) the International Bank for Reconstruction and Development,

(ii) the Inter-American Development Bank,

(iii) the Asian Development Bank, or

(iv) the Caribbean Development Bank."

(2) Section 4900¹ of the said Regulations is further amended by adding thereto the following subsections:

"(6) For the purposes of subparagraphs 146(1)(g)(iv) and 146.3(1)(d)(iii) of the Act, except as provided in subsections (8) and (9), a property is a qualified investment for a trust governed by a registered retirement savings plan or a registered retirement income fund at any time if at that time the property is

¹SOR/85-202, 1985 Canada Gazette Part II, p. 1462

(a) a share of the capital stock of an eligible corporation (within the meaning assigned by subsection 5100(1)), unless the annuitant under the plan or fund is a designated shareholder of the corporation;

(b) an interest of a limited partner in a small business investment limited partnership; or

(c) an interest in a small business investment trust.

(7) For the purposes of subparagraph 204(e)(x) of the Act, except as provided in subsection (11), a property is a qualified investment for a trust governed by a deferred profit sharing plan or revoked plan at any time if at that time the property is an interest

(a) of a limited partner in a small business investment limited partnership; or

(b) in a small business investment trust.

(8) For the purposes of subsection (6), where

(a) a trust governed by a registered retirement savings plan or a registered retirement income fund holds

(i) a share of the capital stock of an eligible corporation (within the meaning assigned by subsection 5100(1)),

(ii) an interest in a small business investment limited partnership that holds a small business security, or

(iii) an interest in a small business investment trust that holds a small business security, and

(b) the annuitant under the plan or fund provides services to or for the issuer of the share or small business security, as the case may be, or a person related to that issuer and it may reasonably be considered, having regard to all the circumstances, including the terms and conditions of the share or small business security, as the case may be, or any agreement relating thereto and the rate of interest or the dividend provided on the share or small business security, as the case may be, that any amount received in respect of the share or small business security, as the case may be, is on account, in lieu or in satisfaction of payment for the services,

the property referred to in subparagraph (a)(i), (ii) or (iii) held by the plan or fund shall, immediately before that amount is received, cease to be and shall not thereafter be a qualified investment for the trust governed by the plan or fund.

(9) For the purposes of subsection (6), where

(a) a trust governed by a registered retirement savings plan or a registered retirement income fund holds

(i) an interest in a small business investment limited partnership, or

(ii) an interest in a small business investment trust that holds a small business security (referred to in this subsection as the "designated security") of a corporation, and

(b) the annuitant under the plan or fund is a designated shareholder of the corporation,

the interest shall not be a qualified investment for the trust governed by the plan or fund unless

(c) the designated security is a share of the capital stock of an eligible corporation,

(d) the partnership or trust, as the case may be, has no right to set off, assign or otherwise apply, directly or indirectly, the designated security against the interest,

(e) no person is obligated in any way, either absolutely or contingently, under any undertaking the intent or effect of which is

(i) to limit any loss that the plan or fund may sustain by virtue of the ownership, holding or disposition of the interest, or

(ii) to ensure that the plan or fund will derive earnings by virtue of the ownership, holding or disposition of the interest,

(f) in the case of the partnership, there are more than 10 limited partners and no limited partner or group of limited partners who do not deal with each other at arm's length holds more than 10 per cent of the units of the partnership, and

(g) in the case of the trust, there are more than 10 beneficiaries and no beneficiary or group of beneficiaries who do not deal with each other at arm's length holds more than 10 per cent of the units of the trust.

(10) For the purposes of paragraphs (9)(f) and (g), a trust governed by a plan or fund shall be deemed not to deal at arm's length with a trust governed by another plan or fund if the annuitant of the plan or fund is the same person as, or does not deal at arm's length with, the annuitant of the other plan or fund.

(11) For the purposes of subsection (7), where

(a) a trust governed by a deferred profit sharing plan or revoked plan holds

(i) an interest in a small business investment limited partnership, or

(ii) an interest in a small business investment trust that holds a small business security of a corporation,

(b) payments have been made in trust to a trustee under the deferred profit sharing plan or revoked plan for the benefit of beneficiaries thereunder by the corporation or a corporation related thereto, and

(c) the small business security is not an equity share described in paragraph 204(e)(vi) of the Act,

the interests referred to in subparagraphs (a)(i) and (ii) shall not be a qualified investment for the trust referred to in paragraph (a)".

3.(1) Section 4901² of the said Regulations is amended by adding thereto, immediately after subsection (1) thereof, the following subsection:

"(1.1) For the purposes of subsection 207.1(5) of the Act, a prescribed property for a trust governed by a registered retirement savings plan or registered retirement income fund is a property described in paragraph 4900(6)(a), (b) or (c) other than

²SOR/81-725, 1981 Canada Gazette Part II, p. 2788

(a) a share of the capital stock of a public corporation;
and

(b) a property that is not a qualified investment for
the trust governed by the plan or fund."

(2) Subsection 4901(2)² of the said Regulations is amended
by adding thereto, in alphabetical order within the subsection,
the following definitions:

"designated shareholder" of a corporation at any time means
a taxpayer who at that time

(a) is or is related to

(i) a specified shareholder of the corporation, or

(ii) a person who would be a specified shareholder of
the corporation if, in applying the definition "specified
shareholder" in subsection 248(1) of the Act, a person
who has a right under a contract, in equity or otherwise,
either immediately or in the future and either absolutely
or contingently, to or to acquire shares of the
capital stock of a corporation were deemed to own
those shares, and one of the main reasons for the
existence of the right may reasonably be considered to
be that the person not be regarded as a specified
shareholder of the corporation,

unless the aggregate of amounts, each of which is the
cost amount of any share of the capital stock of the
corporation or any other corporation that is related
thereto that the taxpayer owns or is deemed to own for
the purposes of the definition "specified shareholder"
is less than \$25,000,

(b) is or is related to a member of a partnership that
controls the corporation directly or indirectly in any
manner whatever,

(c) is or is related to a beneficiary under a trust that
controls the corporation directly or indirectly in any
manner whatever,

(d) is or is related to an employee of the corporation
or a corporation related thereto, where any group of
employees of the corporation or of the corporation
related thereto, as the case may be, controls the

corporation directly or indirectly in any manner whatever, except where the group of employees includes a person or a related group that controls the corporation directly or indirectly in any manner whatever, or

(e) does not deal at arm's length with the corporation;
(actionnaire déterminé)

"small business investment limited partnership" has the meaning assigned by subsection 5102(1); (société en commandite de placement dans des petites entreprises)

"small business investment trust" has the meaning assigned by subsection 5103(1); (fiducie de placement dans des petites entreprises)

"small business security" has the meaning assigned by subsection 5100(2). (titre de petite entreprise)"

4.(1) Section 5000³ of the said Regulations is amended by adding thereto, immediately after subsection (1) thereof, the following subsection:

"(1.1) For the purposes of paragraph (i) of the definition "foreign property" in subsection 206(1) of the Act, the following interests are hereby prescribed not to be foreign property:

(a) an interest of a limited partner in a small business investment limited partnership (within the meaning assigned by subsection 5102(1));

(b) an interest in a small business investment trust (within the meaning assigned by subsection 5103(1)); and

(c) an interest of a limited partner in a qualified limited partnership."

(2) Subsection 5000(7)² of the said Regulations is amended by adding thereto, in alphabetical order within the subsection, the following definition:

"qualified limited partnership" at any time after 1985 means a limited partnership that at all times after it was formed and before that time complied with the following conditions:

³SOR/85-712, 1985 Canada Gazette Part II, p. 3396

(a) it had only one general partner,

(b) the share of the general partner, as general partner, in any income of the partnership from any source in any place, for any period, was the same as his share, as general partner, in

(i) the income of the partnership from that source in any other place,

(ii) the income of the partnership from any other source,

(iii) the loss of the partnership from any source,

(iv) any capital gain of the partnership, and

(v) any capital loss of the partnership

for that period, except that the share of the general partner, as general partner, in the income or loss of the partnership from specified properties (within the meaning assigned by subsection 5100(1)) may differ from his share, as general partner, in the income or loss of the partnership from other sources,

(c) the share of the general partner, as general partner, in any income or loss of the partnership for any period was not less than his share, as general partner, in the income or loss of the partnership for any preceding period,

(d) the interests of the limited partners were described by reference to units of the partnership that were identical in all respects,

(e) no limited partner or group of limited partners who did not deal with each other at arm's length held more than 30 per cent of the units of the partnership,

(f) its only undertaking was the investing of its funds and its investments consisted solely of

(i) shares of the capital stock of corporations (other than shares that were issued to the partnership and that are shares described in section 66.3 of the Act or shares in respect of which amounts have been designated under subsection 192(4) of the Act),

(ii) rights, or warrants that grant the owner thereof rights, to acquire shares of the capital stock of corporations,

(iii) put or call options in respect of shares of the capital stock of corporations,

(iv) debt obligations of corporations,

(v) specified properties (within the meaning assigned by subsection 5100(1)), or

(vi) any combination of the properties described in subparagraphs (i) to (v),

(g) no election has been made under subsection 97(2) of the Act on the acquisition of any property by it,

(h) it has not borrowed money except for the purpose of earning income from its investments and the amount of any such borrowings at any time did not exceed 20 per cent of the partnership capital at that time, and

(i) the cost amount to it of all foreign property held by it did not exceed 10 per cent of the cost amount to it of all property held by it. (société en commandite admissible) "

5. Part LI of the said Regulations is revoked and the following substituted therefor:

"PART LI

Deferred Income Plans, Investments in Small Business

5100.(1) In this Part,

"designated rate", at any time, means 150 per cent of the highest of the prime rates generally quoted at that time by the banks to which Schedule A to the Bank Act applies; (taux déterminé)

"eligible corporation", at any time, means

(a) a particular corporation that is a taxable Canadian corporation all or substantially all of the property of which is at that time

(i) used in a qualifying active business carried on by the particular corporation or by a corporation controlled by it,

(ii) shares of the capital stock of one or more eligible corporations that are related to the particular corporation, or

(iii) any combination of the properties described in subparagraph (i) and (ii), or

(b) a prescribed venture capital corporation described in section 6700,

but does not include

(c) a corporation that is a taxpayer described in subsection 39(5) of the Act,

(d) a corporation controlled directly or indirectly in any manner whatever by one or more non-resident persons, or

(e) a venture capital corporation, other than a prescribed venture capital corporation described in section 6700; (corporation admissible)

"qualifying active business", at any time, means any business carried on primarily in Canada by a corporation, but does not include

(a) a business (other than a business of leasing property other than real property) the principal purpose of which is to derive income from property (including interest, dividends, rent and royalties), or

(b) a business of deriving gains from the disposition of property (other than property in the inventory of the business),

and, for the purposes of this definition, a business carried on primarily in Canada by a corporation, at any time, includes a business carried on by the corporation if, at that time,

(c) at least 50 per cent of the full time employees of the corporation and all corporations related thereto employed in respect of the business are employed in Canada, or

(d) at least 50 per cent of the salaries and wages paid to employees of the corporation and all corporations related thereto employed in respect of the business are reasonably attributable to services rendered in Canada;
(entreprise admissible exploitée activement)

"qualifying obligation", at any time, means a bond, debenture, mortgage, hypothec, note or other similar obligation of a corporation described in paragraph 149(1) (o.2) or (o.3) of the Act, if

(a) the obligation was issued by the corporation after October 31, 1985,

(b) the corporation used all or substantially all of the proceeds of the issue of the obligation within 90 days after the receipt thereof to acquire

(i) small business securities,

(ii) interests of a limited partner in small business investment limited partnerships,

(iii) interests in small business investment trusts,
or

(iv) any combination of the properties described in subparagraphs (i) to (iii)

and, except as provided in subsection 5104(1), the corporation was the first person (other than a broker or dealer in securities) to have acquired the properties and the corporation has owned the properties continuously since they were so acquired,

(c) the corporation does not hold, and no group of persons who do not deal with each other at arm's length and of which it is a member holds, more than 30 per cent of the outstanding shares of any class of voting stock of another corporation, except where all or any part of those shares were acquired in specified circumstances, within the meaning of subsection 5104(2),

(d) the recourse of the holder of the obligation against the corporation with respect to the obligation is limited to the properties acquired with the proceeds of the issue of the obligation and any properties substituted therefor, and

(e) the properties acquired with the proceeds of the issue of the obligation have not been disposed of, unless the disposition occurred within the 90 day period immediately preceding that time; (titre admissible)

"specified property" means property described in any of subparagraphs 204(e)(i), (ii), (iii), (vii) and (viii) of the Act. (bien déterminé)

(2) For the purposes of this Part and paragraph (a) of the definition "small business property" in subsection 206(1) of the Act, a small business security of a person, at any time, is the property of that person that is, at that time,

(a) a share of the capital stock of an eligible corporation,

(b) a debt obligation of an eligible corporation that is

(i) secured solely by a floating charge on the assets of the corporation and that does not by its terms or any agreement related thereto restrict the corporation from incurring other debts, but that is by its terms or any agreement related thereto subordinate to all other debt obligations of the corporation (other than a small business security issued by the corporation, or a debt obligation owing by the corporation to a shareholder of the corporation or a person related thereto that is not secured in any manner whatever), or

(ii) not secured in any manner whatever,

other than a debt obligation that

(iii) where the debt obligation specifies an invariant rate of interest, has an effective annual rate of return that exceeds the designated rate for the day on which the obligation was issued, and

(iv) in any other case, may have an effective annual rate of return at a particular time that exceeds the designated rate at the particular time,

(c) an option or right granted by an eligible corporation in conjunction with the issue of a share or debt obligation that qualifies as a small business security to acquire a share of the capital stock of the corporation, or

(d) an option or right granted for no consideration by an eligible corporation to a holder of a share that qualifies as a small business security to acquire a share of the capital stock of the corporation

if, immediately after the time of acquisition thereof,

(e) the aggregate of the cost amounts to the person of all shares, options, rights and debt obligations of the eligible corporation and all corporations associated therewith held by the person does not exceed \$10,000,000, and

(f) the total assets of the eligible corporation and all corporations associated therewith (determined in accordance with generally accepted accounting principles on a consolidated or combined basis, where applicable) do not exceed \$35,000,000

and includes a property that is, at that time, a qualifying obligation.

(3) For the purposes of subsection (2), in determining the effective annual rate of return in respect of a debt obligation of an eligible corporation, the value of any right to convert the debt obligation or any part thereof into or to exchange the debt obligation or any part thereof for shares of the capital stock of the corporation or an option or right to acquire such shares shall not be considered.

5101.(1) Subject to subsection (4), for the purposes of this Part and paragraph 149(1)(o.3) and paragraph (b) of the definition "small business property" in subsection 206(1) of the Act, a corporation is a small business investment corporation at any time if it is a Canadian corporation incorporated after May 22, 1985 and at all times after it was incorporated and before that time

(a) all of the shares, and rights to acquire shares, of the capital stock of the corporation were owned by

(i) one or more registered pension funds or plans,

(ii) one or more trusts all the beneficiaries of which were registered pension funds or plans,

(iii) one or more related segregated fund trusts (within the meaning assigned by paragraph 138.1(1)(a) of the Act) all the beneficiaries of which were registered pension funds or plans, or

(iv) one or more persons prescribed by section 4802 for the purposes of clause 149(1)(o.2)(iv)(D) of the Act;

(b) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities,

(ii) interests of a limited partner in small business investment limited partnerships,

(iii) interests in small business investment trusts,

(iv) specified properties, or

(v) any combination of the properties described in subparagraphs (i) to (iv)

and, except as provided in subsection 5104(1), with respect to properties referred to in any of subparagraphs (i) to (iii), the corporation was the first person (other than a broker or dealer in securities) to have acquired the properties and the corporation has owned the properties continuously since they were so acquired;

(c) it has complied with subsection (2);

(d) it did not hold, and no group of persons who did not deal with each other at arm's length and of which it was a member held, more than 30 per cent of the outstanding shares of any class of voting stock of a corporation, except where all or any part of such shares were acquired in specified circumstances within the meaning of subsection 5104(2);

(e) it has not borrowed money except from its shareholders; and

(f) it has not accepted deposits.

(2) Every small business investment corporation shall at all times hold properties referred to in subparagraphs (1)(b)(i) to (iii), the aggregate of the cost amounts of which is not less than 75 per cent of the amount, if any, by which

(a) the aggregate of all amounts each of which is the amount of consideration for the issue of shares of its capital stock or debt to its shareholders or the amount of a contribution of capital by its shareholders received by it more than 90 days before that time

exceeds

(b) the aggregate of

(i) all amounts paid by it before that time to its shareholders as a return of capital or a repayment of debt, and

(ii) the amount, if any, by which the aggregate of its losses from the disposition of properties disposed of before that time exceeds the aggregate of its gains from the disposition of properties disposed of before that time.

(3) For the purposes of subsection (2), where a small business investment corporation disposes of a property referred to in subparagraphs (1)(b)(i) to (iii), it shall be deemed to continue to hold the investment for a period of 90 days following the date of the disposition.

(4) For the purposes of paragraph 149(1)(o.3) of the Act, where a small business investment corporation holds an interest in a partnership or trust that qualified as a small business investment limited partnership or small business investment trust, as the case may be, when the interest was acquired and that, but for this subsection, would cease at a subsequent time to so qualify, the interest in the partnership or trust shall be deemed to be an interest in a small business investment limited partnership or small business investment trust, as the case may be, for the 24 months immediately following the subsequent time.

5102.(1) For the purposes of this Part and paragraph (c) of the definition "small business property" in subsection 206(1) of the Act, a partnership is a small business investment limited partnership at any time if at all times after it was formed and before that time

(a) it had only one general partner,

(b) the share of the general partner, as general partner, in any income of the partnership from any source in any place, for any period, was the same as his share, as general partner, in

(i) the income of the partnership from that source in any other place,

(ii) the income of the partnership from any other source,

(iii) the loss of the partnership from any source,

(iv) any capital gain of the partnership, and

(v) any capital loss of the partnership

for that period, except that the share of the general partner, as general partner, in the income or loss of the partnership from specified properties may differ from his share, as general partner, in the income or loss of the partnership from other sources,

(c) the share of the general partner, as general partner, in any income or loss of the partnership for any period was not less than his share, as general partner, in the income or loss of the partnership for any preceding period;

(d) the interests of the limited partners were described by reference to units of the partnership that were identical in all respects,

(e) no limited partner or group of limited partners who did not deal with each other at arm's length held more than 30 per cent of the units of the partnership and, for the purposes of this paragraph, a small business investment corporation that has not borrowed money and in which no shareholder or group of shareholders who did not deal with each other at arm's length held more than 30 per cent of the outstanding shares of any class of voting stock shall be deemed not to be a limited partner, and

(f) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities where, except as provided in subsection 5104(1), the partnership was the first person (other than a broker or dealer in securities) to have acquired the securities and it has owned the securities continuously since they were so acquired,

(ii) specified properties, or

(iii) any combination of the properties described in subparagraphs (i) and (ii),

(g) it has complied with subsection (2),

(h) it has not borrowed money except for the purpose of earning income from its investments and the amount of any such borrowings at any time did not exceed 20 per cent of the partnership capital at that time, and

(i) it has not accepted deposits.

(2) The aggregate of the cost amounts to a small business investment limited partnership of small business securities held by it at any time shall not be less than the amount, if any, by which the aggregate of

(a) 25 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 12 months before that time and not more than 24 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its members and designated by the partnership as a return of the consideration referred to in subparagraph (i),

(b) 50 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 24 months before that time and not more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its members and designated by the partnership as a return of the consideration referred to in subparagraph (i), and

(c) 75 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its members and designated by the partnership as a return of the consideration referred to in subparagraph (i),

exceeds 75 per cent of the amount, if any, by which the aggregate of its losses from the disposition of properties disposed of before that time exceeds the aggregate of its gains from the disposition of properties disposed of before that time.

(3) For the purposes of subsection (2), where a small business investment limited partnership disposes of a small business security it shall be deemed to continue to hold the investment for a period of 90 days following the date of the disposition.

5103.(1) For the purposes of this Part, paragraph (d) of the definition "small business property" in subsection 206(1) of the Act and subsection 259(3) of the Act, a trust is a small business investment trust at any time if at all times after it was created and before that time

(a) it was resident in Canada;

(b) the interests of the beneficiaries under the trust were described by reference to units of the trust that were identical in all respects; and

(c) no beneficiary or group of beneficiaries who did not deal with each other at arm's length held more than 30% of the units of the trust and, for the purposes of this paragraph, a small business investment corporation that has not borrowed money and in which no shareholder or group of shareholders who did not deal with each other at arm's length held more than 30 per cent of the outstanding shares of any class of voting stock shall be deemed not to be a beneficiary;

(d) its only undertaking was the investing of its funds and its investments consisted solely of

(i) small business securities where, except as provided in subsection 5104(1), the trust was the first person (other than a broker or dealer in securities) to have

acquired the securities and it has owned the securities continuously since they were so acquired,

(ii) specified properties, or

(iii) any combination of the properties described in subparagraphs (i) and (ii);

(e) it has complied with subsection (2);

(f) it has not borrowed money except for the purpose of earning income from its investments and the amount of any such borrowings at any time did not exceed 20 per cent of the trust capital at that time; and

(g) it has not accepted deposits.

(2) The aggregate of the cost amounts to a small business investment trust of small business securities held by it at any time shall not be less than the amount, if any, by which the aggregate of

(a) 25 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 12 months before that time and not more than 24 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its beneficiaries and designated by the trust as a return of the consideration referred to in subparagraph (i),

(b) 50 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 24 months before that time and not more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its beneficiaries and designated by the trust as a return of the consideration referred to in subparagraph (i), and

(c) 75 per cent of the amount, if any, by which

(i) the aggregate of all amounts received by it more than 36 months before that time as consideration for the issue of its units or in respect of its units

exceeds

(ii) the aggregate of all amounts paid by it before that time to its beneficiaries and designated by the trust as a return of the consideration referred to in subparagraph (i)

exceeds 75 per cent of the amount, if any, by which the aggregate of its losses from the disposition of properties disposed of before that time exceeds the aggregate of its gains from the disposition of properties disposed of before that time.

(3) For the purposes of subsection (2), where a small business investment trust disposes of a small business security it shall be deemed to continue to hold the investment for a period of 90 days following the date of disposition.

5104.(1) Notwithstanding paragraph (b) of the definition "qualifying obligation" in subsection 5100(1) and paragraphs 5101(1)(b), 5102(1)(f) and 5103(1)(d), the corporation, partnership or trust, as the case may be, may acquire a small business security that another person (other than a broker or dealer in securities) had previously acquired if

(a) the small business security is a share of the capital stock of an eligible corporation having full voting rights under all circumstances; and

(b) except where the share was acquired in specified circumstances within the meaning of subsection (2), the share was acquired from an officer or employee of the eligible corporation or a person related to the officer or employee.

(2) For the purposes of this Part,

(a) where a person acquires a share of a corporation

(i) as part of a proposal to, or an arrangement with, the corporation's creditors that has been approved by a court under the Bankruptcy Act or the Companies' Creditors Arrangement Act,

(ii) at a time when all or substantially all of the corporation's assets were under the control of a receiver, receiver-manager, sequestrator or trustee in bankruptcy, or

(iii) at a time when, by reason of financial difficulty, the corporation was in default, or could reasonably be expected to default, on a debt obligation held by a person with whom the corporation was dealing at arm's length,

he shall be deemed, at any time within 36 months after he acquired the share, to have acquired it in specified circumstances; and

(b) where a person acquires a share of a corporation for the purposes of facilitating the disposition of the entire investment of the person in the corporation, he shall be deemed, at any time within 12 months after he acquired the share, to have acquired it in specified circumstances.

(3) Where the purchaser of a property that, but for this subsection, would at the time of its acquisition be a small business security (or, where the purchaser is a partnership, a member thereof) knew at the time of acquisition that the issuer of the security would, within the immediately following 12 months, cease to qualify as an eligible corporation, the property shall be deemed never to have been a small business security of the purchaser.

(4) Where a person who holds a share of or an interest in a corporation, partnership or trust that, but for this subsection, would be a small business investment corporation, small business investment limited partnership or small business investment trust knew at the time of issue of the share or interest, as the case may be, or at the time of making any contribution in respect of the share or interest, that

(a) a substantial portion of

(i) the consideration for the issue of the share or interest, or

(ii) the contribution in respect of the share or interest would not be invested by the corporation, partnership or trust, as the case may be, directly or indirectly in small business securities, and

(b) all or substantially all of

(i) the consideration for the issue of the share or interest, or

(ii) the contribution in respect of the share or interest would be returned to the purchaser within the immediately following 24 months,

the corporation, partnership or trust shall be deemed to have ceased at that time to be a small business investment corporation, small business investment limited partnership or small business investment trust.

(5) Where, but for this subsection, a property that qualified as a small business security when it was acquired would cease at a subsequent time to so qualify, the property shall be deemed to be a small business security for the 24 months immediately following the subsequent time.

(6) For the purposes of this Part, a partnership shall be deemed to be a person."

6. Sections 1 to 5 are effective after October 31, 1985.

EXPLANATORY NOTE

(This note is not part of the Regulations.)

These amendments

(a) consolidate in subsection 400(2) the definition "permanent establishment" for the purposes of Part IV of the Regulations and subsection 112(2) of the Income Tax Act;

(b) prescribe investments as qualified investments for the purposes of subparagraphs 146(1)(g)(iv), 146.3(1)(d)(iii) and 204(e)(x) of the Act;

(c) prescribe properties for the purposes of subsection 207.1(5) of the Act;

(d) prescribe interests in trusts and partnerships that for the purposes of paragraph (i) of the definition "foreign properties" in subsection 206(1) of the Act are not foreign property;

(e) prescribe properties as small business securities for the purposes of paragraph (a) of the definition "small business property" in subsection 206(1) of the Act; and

(f) prescribe corporations, partnerships and trusts as small business investment corporations, small business investment limited partnerships and small business investment trusts for the purposes of the definition "small business property" in subsection 206(1) of the Act.

Release

Communiqué

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For immediate release

Publication immédiate

Ottawa, April 25, 1986

Ottawa, le 25 avril 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for January 1986 and the first ten months of the 1985-86 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de janvier 1986 et les dix premiers mois de l'année financière 1985-86.

For January 1986, budgetary revenues were \$6,759 million, budgetary expenditures were \$8,323 million and there was a deficit of \$1,564 million. For January 1985, revenues were \$6,357 million, expenditures were \$8,048 million and there was a deficit of \$1,691 million.

Les chiffres budgétaires de janvier 1986 montrent des recettes de \$6,759 millions, des dépenses de \$8,323 millions et un déficit de \$1,564 millions. En janvier 1985, les recettes s'établissaient à \$6,357 millions, les dépenses à \$8,048 millions et le déficit à \$1,691 millions.

For the first ten months of the 1985-86 fiscal year, revenues were \$54,918 million, expenditures were \$80,896 million and there was a deficit of \$25,978 million. For the same period last year, revenues were \$49,624 million, expenditures were \$76,356 million and there was a deficit of \$26,732 million.

Les dix premiers mois de l'année financière 1985-86 ont produit des recettes de \$54,918 millions contre des dépenses de \$80,896 millions d'où un déficit de \$25,978 millions. La période correspondante de l'an dernier avait donné des recettes de \$49,624 millions, des dépenses de \$76,356 millions et un déficit de \$26,732 millions.

Taking into account known differences in the timing of certain expenditures in the final months of 1985-86 as compared with the same period of 1984-85, particularly in the areas of defence capital procurement, transfers to the provincial governments under the Established Program Financing arrangements and interest on the public debt, the results for the year to date as presented in the January financial statements are consistent with the projections for the year as a whole that were given in the February 26, 1986 budget.

Considérant les écarts connus de décalage de certaines dépenses dans les derniers mois de 1985-86 comparativement à la même période de 1984-85 particulièrement dans les domaines de dépenses de défense, des transferts aux gouvernements provinciaux en vertu des ententes de Financement des programmes établis et de l'intérêt sur la dette publique, les résultats à ce jour tel que réflétés dans les états financiers de janvier sont conformes aux projections pour l'ensemble de l'année tel que présentées dans le budget du 26 février 1986.

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Release

Communiqué

Immediate release

Ottawa, May 5, 1986

86-88

NEW DRAFT REGULATIONS RELATING TO CAPITAL GAINS EXEMPTION ISSUED

The Honourable Michael Wilson, Minister of Finance, today released revised draft income tax regulations clarifying the scope of anti-avoidance rules relating to the lifetime \$500,000 capital gains exemption introduced last year.

The revised draft contains proposed amendments to the Income Tax Regulations relating to prescribed shares under the anti-avoidance rules in subsections 110.6(8) and (9) of the Income Tax Act. An earlier draft was issued November 21, 1985.

This revised draft addresses concerns expressed concerning capital gains from the sale of shares of mutual fund corporations and common shares of other corporations acquired as part of an estate freeze type of transaction.

The Minister said that in most cases an individual will be permitted to use his lifetime capital gains exemption in respect of such capital gains.

He indicated that he intends to proceed with implementation of the proposed regulation at the earliest opportunity.

For further information, please contact:

Wallace Conway (613) 992-4851 or
Paul Lailey (613) 996-0597
Tax Policy and Legislation Division

CAPITAL GAINS EXEMPTION

1. Part LXII of the Income Tax Regulations is amended by adding thereto the following section:

"6205.(1) For the purposes of subsections 110.6(8) and (9) of the Act, a prescribed share is a share of the capital stock of a corporation where,

(a) at the time it is issued, under the terms or conditions of the share or any agreement relating to the share or its issue

(i) the amount of the dividends (in this section referred to as the "dividend entitlement") that the corporation may declare or pay on the share is not limited to a maximum amount or fixed at a minimum amount at any time by way of a formula or otherwise,

(ii) the amount (in this section referred to as the "liquidation entitlement") that the holder of the share is entitled to receive on the share on the dissolution, liquidation or winding-up of the corporation is not limited to a maximum amount or fixed at a minimum amount by way of a formula or otherwise,

(iii) the share cannot be converted into any other security, other than into another security of the corporation that is a prescribed share,

(iv) the holder of the share does not have the right or obligation at any time to cause the share to be redeemed, acquired or cancelled by the corporation or any other person or partnership with whom the corporation does not deal at arm's length,

(v) neither the corporation nor any person or partnership with whom the corporation does not deal at arm's length has, either absolutely or contingently, the right or obligation to acquire or cancel, at any time, the share in whole or in part,

(vi) no person or partnership has, either absolutely or contingently, an obligation to reduce, or to cause the corporation to reduce, at any time, the paid-up capital in respect of the share, and

(vii) no person or partnership has, either absolutely or contingently, an obligation to provide, at any time, any form of undertaking with respect to the share (including any guarantee, security, indemnity, covenant or agreement) given to ensure that any loss that a holder may sustain by virtue of the holding, ownership or disposition of the share is limited in any respect,

(b) at the time it is issued, it cannot reasonably be expected that any of the terms or conditions of the share or any existing agreement relating to the share or its issue will thereafter be modified or amended or that any new agreement relating to the share or its issue will be entered into, in such a manner that the share would not be a prescribed share if it had been issued at the time of such modification or amendment or at the time the new agreement is made,

(c) it is a share owned by a person that does not deal at arm's length with another shareholder of the corporation that was issued to that person or a deceased spouse of that person by the corporation as part of a transaction or event or a series of transactions or events the main purpose of which was to permit future appreciation in the value of the property of the corporation that issued the share to accrue to that other shareholder,

(d) it is a share owned by a person that was issued to that person or a deceased spouse of that person by the corporation as part of a transaction or event or a series of transactions or events the main

purpose of which was to permit future appreciation in the value of the property of the corporation that issued the share to accrue to the employees of the corporation or a corporation controlled by it, or

(e) it is a share issued by a mutual fund corporation

but a prescribed share does not include a share issued by a mutual fund corporation (other than an investment corporation) the value of which can reasonably be considered to be, directly or indirectly, derived primarily from investments made by the mutual fund corporation in one or more corporations (in this subsection referred to as an "investee corporation") connected with it (within the meaning of subsection 186(4) of the Act on the assumption that the references therein to "payer corporation" and to "particular corporation" were read as "investee corporation" and "mutual fund corporation" respectively).

(2) For the purpose of subsection (1),

(a) the dividend entitlement of a share shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the dividend entitlement is determinable by reference to the dividend entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(a)(i);

(b) the liquidation entitlement of a share shall be deemed not to be limited to a maximum amount or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the liquidation entitlement is determinable by reference to the liquidation entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(a)(ii);

(c) where a corporation has merged or amalgamated with one or more other corporations, the corporation formed as a result of the merger or amalgamation shall be deemed to be the same corporation as, and a continuation of, each of its predecessor corporations and a share

issued on the merger or amalgamation as consideration for another share shall be deemed to be the same share as the share for which it was issued;

(d) a reference in subparagraphs (1)(a)(iv), (v) and (vii) to a right or obligation of a person or partnership does not include a right or obligation provided in a written agreement among all shareholders of a private corporation to which such person or partnership is a party unless it may reasonably be considered, having regard to all the circumstances, including the terms of the agreement and the number and relationship of the shareholders, that one of the main reasons for the existence of the agreement is to avoid or limit the application of subsections 110.6(8) and (9) of the Act; and

(e) where at any particular time after November 21, 1985, the terms or conditions of a share are changed or any existing agreement relating thereto is changed or a new agreement relating to the share is entered into, the share shall, for the purpose of determining whether it is a prescribed share, be deemed to have been issued at the particular time."

2. Section 1 is applicable to the 1985 and subsequent taxation years.

Release

Communiqué

CAI
FN 20

86-99

-C55

For immediate release

Publication immédiate

Ottawa, May 20, 1986

Ottawa, le 20 mai 1986



MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for February 1986 and the first eleven months of the 1985-86 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de février 1986 et les onze premiers mois de l'année financière 1985-86.

For February 1986, budgetary revenues were \$5,387 million, budgetary expenditures were \$8,038 million and there was a deficit of \$2,651 million. For February 1985, revenues were \$4,538 million, expenditures were \$7,994 million and there was a deficit of \$3,456 million.

Les chiffres budgétaires de février 1986 montrent des recettes de \$5,387 millions, des dépenses de \$8,038 millions et un déficit de \$2,651 millions. En février 1985, les recettes s'établissaient à \$4,538 millions, les dépenses à \$7,994 millions et le déficit à \$3,456 millions.

For the first eleven months of the 1985-86 fiscal year, revenues were \$60,305 million, expenditures were \$88,934 million and there was a deficit of \$28,629 million. For the same period last year, revenues were \$54,162 million, expenditures were \$84,351 million and there was a deficit of \$30,189 million.

Les onze premiers mois de l'année financière 1985-86 ont produit des recettes de \$60,305 millions contre des dépenses de \$88,934 millions d'où un déficit de \$28,629 millions. La période correspondante de l'an dernier avait donné des recettes de \$54,162 millions, des dépenses de \$84,351 millions et un déficit de \$30,189 millions.

Taking into account known differences in the timing of certain expenditures in the final months of 1985-86 as compared with the same period of 1984-85 particularly in the areas of defence capital procurement, transfers to the provincial governments under the Establishment Program Financing arrangements and interest on the public debt, the results for the year to date as presented in the February financial statements are consistent with the projections for the year as a whole that were given in the February 26, 1986 budget.

For further information:

Louis A. Langlois (613-996-7380)
Peter DeVries (613-993-6963)

Considérant les écarts connus de décalage de certaines dépenses dans les derniers mois de 1985-86 comparativement à la même période de 1984-85 particulièrement dans les domaines de dépenses de défense, des transferts aux gouvernements provinciaux en vertu des ententes de Financement des programmes établis et de l'intérêt sur la dette publique, les résultats à ce jour tel que reflétés dans les états financiers de février sont conformes aux projections pour l'ensemble de l'année tel que présentées dans le budget du 26 février 1986.

Pour de plus amples renseignements:

Louis A. Langlois (613-996-7380)
Peter DeVries (613-993-6963).

Release

Communiqué

Immediate release

CAI
FN 20
-055

Ottawa, June 11, 1986

86-110

DETAILS OF FEBRUARY 26, 1986 BUDGET INCOME TAX AMENDMENTS TABLED

The Honourable Michael Wilson, Minister of Finance, today tabled in the House of Commons proposed income tax legislation in the form of a comprehensive Notice of Ways and Means Motion. The draft legislation contains the details of the amendments to the Income Tax Act announced in the February 26, 1986 budget, the minimum tax and a number of other previously announced income tax measures including the exploration tax credit, the revised definition of Canadian exploration expense and the rules relating to carve-out arrangements.

The proposed amendments are presented in the form of a comprehensive Notice of Ways and Means Motion to give taxpayers and their professional advisers an opportunity to see the details of the proposed amendments and comment on them before the amendments are tabled in the form of a bill. The Minister also released technical notes explaining each of the proposed amendments. Any questions or comments relating to the proposed amendments should be directed to:

Department of Finance
Tax Policy - Legislation Division
160 Elgin Street
Ottawa, Ontario
K1A 0G5



Release

Communiqué

CAI
FN 20
105
86-122

For immediate release

Publication immédiate

Ottawa, June 27, 1986

Ottawa, le 27 juin 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the monthly statement of the government's financial operations to the end of March 1986.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui l'état mensuel des opérations financières du gouvernement à la fin de mars 1986.

For March 1986, budgetary revenues were \$6.2 billion and expenditures were \$9.3 billion, resulting in a monthly deficit of \$3.1 billion. For March 1985, budgetary revenues were \$6.7 billion, expenditures were \$10.0 billion and there was a deficit of \$3.3 billion. As a result, the deficit in March 1986 improved by over \$0.2 billion from the comparable month in 1985 as lower expenditures (\$0.7 billion) more than offset a \$0.5 billion decline in revenues. The shortfall in revenues was due largely to weakness in corporate income tax collections and in exchange fund profits.

En mars 1986, les recettes ont atteint 6,2 milliards de dollars et les dépenses 9,3 milliards de dollars, ce qui a entraîné un déficit mensuel de 3,1 milliards de dollars. En mars 1985, les recettes s'établissaient à 6,7 milliards de dollars et les dépenses à 10,0 milliards de dollars, ce qui a donné un déficit de 3,3 milliards de dollars. Ainsi, le déficit de mars 1986 est inférieur de plus de 0,2 milliard de dollars au déficit enregistré en mars 1985 étant donné que la baisse des dépenses (0,7 milliard de dollars) a plus que compensé une diminution de 0,5 milliard de dollars de recettes. Ce manque à gagner était attribuable en grande partie à la faiblesse des recouvrements de l'impôt sur le revenu des sociétés et des profits du fonds des changes.

...2

Over the period April 1985 to March 1986, budgetary revenues were \$66.6 billion, expenditures were \$98.3 billion and there was a deficit of \$31.7 billion. For the same period in the last fiscal year, revenues were \$60.9 billion, expenditures were \$94.4 billion and there was deficit of \$33.5 billion. On a year-to-date basis, the deficit position in 1985-86 has improved by \$1.8 billion compared to the same period in 1984-85.

Preliminary financial results for the fiscal year 1985-86, which will include the supplementary period transactions, will be available, as usual, in late August. Final audited results will be published in the Public Accounts of Canada scheduled for release in late fall.

The year-over-year increase in budgetary expenditures, derived by comparing the results for the twelve months ending March 1986 to the twelve months ending March 1985, which excludes the supplementary periods, slightly exceeds that estimated in the February budget for the fiscal year as a whole (without the accounting changes). However, a very significant improvement is expected in the supplementary period, both relative to last year and to the February budget projection. Budgetary expenditures

Au cours de la période d'avril 1985 à mars 1986, les recettes s'établissaient à 66,6 milliards de dollars et les dépenses à 98,3 milliards de dollars, ce qui laissait un déficit de 31,7 milliards de dollars. Pour la même période de l'année financière précédente, les recettes s'établissaient à 60,9 milliards de dollars et les dépenses à 94,4 milliards de dollars, ce qui laissait un déficit de 33,5 milliards de dollars. Le déficit de 1985-1986 a diminué de 1,8 milliard de dollars comparativement à la même période de 1984-1985 à pareille date.

Les résultats financiers préliminaires pour l'année financière 1985-1986, qui comprendront les opérations effectuées au cours de la période complémentaire, seront disponibles, comme d'habitude, à la fin août. Les résultats finals vérifiés seront publiés dans les Comptes publics du Canada qui doivent être présentés vers la fin de l'automne.

L'augmentation d'une année à l'autre des dépenses budgétaires, obtenue en comparant les résultats de la période de douze mois se terminant en mars 1986 avec ceux de la même période se terminant en mars 1985, qui exclut les périodes complémentaires, dépasse légèrement la hausse prévue dans le budget de février pour l'ensemble de l'année financière (modifications comptables exclues). Toutefois, une amélioration très importante est prévue au cours de la période complémentaire, tant par rapport à l'an dernier qu'à la projection du budget de février. Les dépenses

in the 1984-85 supplementary period were a record \$6.7 billion, due largely to a number of large payments relating to Canadair/de Havilland, defence and to the provision for valuation. Preliminary indications are that in the 1985-86 supplementary period, expenditures in these areas were considerably reduced. Furthermore, preliminary indications are that the freeze on discretionary spending, announced in February 1986, was most pronounced in the supplementary period and this should help restrain the build-up of expenditures in the supplementary period. These factors should ensure that the expenditures for the fiscal year as a whole will be below the February 1986 budget estimate.

The year-over-year increase in budgetary revenues over the April to March period, which excludes the supplementary periods, is marginally below that estimated in the February budget for the fiscal year as a whole. Lower than anticipated corporate income tax revenues in the March 1986 settlement period accounts for most of this difference. There is little likelihood that this shortfall will be recovered in the supplementary period. However, the substantially lower expected outcome for budgetary expenditures should offset, in large measure, this shortfall in budgetary revenues, thereby leaving the February budget deficit estimate of \$33.8 billion broadly on track.

budgétaires de la période complémentaire de 1984-1985 ont atteint un sommet de 6,7 milliards de dollars. Des paiements importants relatifs à Canadair/de Havilland, à la défense ainsi que la provision pour évaluation intervenaient pour une part importante de ce montant. Selon des indications préliminaires, au cours de la période complémentaire de 1985-1986, les dépenses dans ces secteurs ont été considérablement réduites. En outre, le gel des dépenses discrétionnaires, annoncé en février 1986, devrait être plus marqué au cours de la période complémentaire et devrait permettre de limiter l'accumulation des dépenses au cours de la période complémentaire. Ces facteurs devraient assurer que les dépenses pour l'ensemble de l'année financière seront inférieures à l'estimation faite dans le budget de février 1986.

L'augmentation d'une année à l'autre des recettes budgétaires au cours de la période d'avril à mars, qui exclut les périodes complémentaires est légèrement inférieure à l'estimation faite dans le budget de février pour l'ensemble de l'année financière. Les recettes tirées de l'impôt sur le revenu des sociétés inférieures aux prévisions au cours de la période de règlement de mars 1986 représentent la grande partie de cette différence. Il est fort peu probable que ce manque à gagner sera recouvré au cours de la période complémentaire. Toutefois, la baisse sensible prévue des dépenses budgétaires devrait compenser en grande partie ce manque à gagner, permettant ainsi de respecter dans l'ensemble l'estimation du déficit de 33,8 milliards de dollars faite dans le budget de février.

To the end of March 1986, total financial requirements (excluding foreign exchange transactions) amounted to \$29.7 billion. Based on the March results, financial requirements for 1985-86 will be \$1.4 billion above the February 1986 budget estimate of \$28.3 billion. It is expected that this increase in financial requirements will not have any adverse effect on the deficit estimate for 1985-86, as a lower than expected level of accounts payable in the supplementary period should offset the shortfall in March revenues. This is supported by substantially lower than anticipated financial requirements in April 1986.

These figures are an incomplete reflection of the financial results for the fiscal year as a whole. They do not include the supplementary period transactions. Goods received and services rendered prior to March 31st but for which payments are made after March 31st are recorded in the supplementary period.

For further information:

Louis A. Langlois (613-996-7380)
Peter DeVries (613-993-6963)

Jusqu'à la fin de mars 1986, les besoins financiers globaux (à l'exception des opérations de change) s'établissaient à 29,7 milliards de dollars. Selon les résultats de mars, les besoins financiers de 1985-1986 seront de 1,4 milliard de dollars supérieurs à l'estimation de 28,3 milliards de dollars faite dans le budget de février 1986. On prévoit que cette hausse des besoins financiers n'aura pas d'effets néfastes sur l'estimation du déficit pour 1985-1986, étant donné qu'une baisse du niveau prévu des comptes créditeurs au cours de la période complémentaire devrait compenser le manque à gagner en mars. Ces prévisions sont étayées par une baisse plus importante que prévu des besoins financiers en avril 1986.

Ces montants représentent une projection incomplète des résultats financiers pour l'ensemble de l'année financière. Ils n'incluent pas les opérations de la période complémentaire. Les marchandises reçues et les services rendus avant le 31 mars mais dont le paiement est effectué après le 31 mars sont comptabilisés dans la période complémentaire.

Pour de plus amples renseignements:

Louis A. Langlois (613-996-7380)
Peter DeVries (613-993-6963)

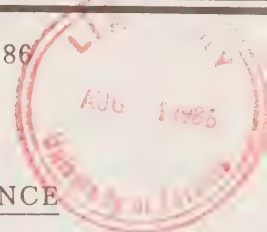
Release

Communiqué

Immediate release

Ottawa, July 28, 1986

86-131



TAX PROVISIONS ANNOUNCED FOR SELF-FUNDED LEAVES OF ABSENCE

The Honourable Michael Wilson, Minister of Finance, today issued draft income tax regulations relating to salary deferral arrangements.

In his February 1986 budget Mr. Wilson proposed that payments of salary deferred by an employee through a "salary deferral arrangement" be taxed in the employee's hands on an accrual basis rather than a receipts basis. There was concern that some of these arrangements were eroding tax revenues and providing unfair benefits to some individuals.

The budget said the measure would exclude arrangements "where employee benefit plans are not primarily motivated by tax deferral considerations."

Finance Minister Wilson said, "As a result of extensive consultations with individuals and the private sector, the regulations being released today exclude leave-of-absence arrangements from the accrual tax. These arrangements should be encouraged."

Under the draft regulations, an employee may arrange a self-funded leave of absence by deferring from tax up to 30 per cent of his or her salary. The salary deferred would be taxable only in the year it is received.

The rules contained in the draft regulations apply to all salary deferral arrangements made between employees and their employer provided certain conditions are met.

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The tax on the deferred salary cannot be deferred longer than seven years. Employees will be taxed on a current basis, however, on interest or other amounts that accrue to them in respect of their deferred salary. The draft regulations also stipulate that employees must return to their employer after the leave-of-absence period.

The Minister said that all self-funded leave-of-absence arrangements established before July 28, 1986 will be grandfathered for participating employees provided the salary deferrals commence by the end of 1986.

Legislative provisions on deferred salary arrangements were set out in a detailed Notice of Ways and Means Motion tabled in the House of Commons on June 11, 1986.

Details of the draft regulations are attached.

Reference: Jim Wilson
Tax Counsel Division
(613) 996-4425

SCHEDULE

1. Part LXVIII of the Income Tax Regulations is amended by adding thereto the following section:

"6801. For the purposes of paragraph (k) of the definition of "salary deferral arrangement" in subsection 248(1) of the Act a prescribed plan or arrangement is an arrangement in writing between an employer and his employee

- (a) established on or after July 28, 1986 where

- (i) it is reasonable to conclude, having regard to all the circumstances, including the terms and conditions of the arrangement and any agreement relating thereto, that the arrangement is not established to provide benefits on or after retirement but is established for the main purpose of permitting the employee to fund, through salary or wage deferrals, a leave of absence from his employment that commences immediately after a period (in this section referred to as the "deferral period") not exceeding six years after the date on which the deferrals for the leave of absence commence;

- (ii) the amount of salary or wages deferred by the employee under all such arrangements in a taxation year does not exceed thirty percent of the amount of the salary or wages that the employee would but for such arrangements reasonably be expected to have received in the year in respect of services rendered by him to his employer;

- (iii) the arrangement provides that throughout the period of his leave of absence the employee does not receive any salary or wages from his employer or any other person or partnership with whom his employer does not deal at arm's length other than amounts of his salary or wages that were deferred before that period;

- (iv) the arrangement provides that where the amounts deferred in respect of the employee under the arrangement

- (A) are held by or for the account of a trust governed by a plan or arrangement that would be an employee benefit plan within the meaning of the definition of "employee benefit plan" in subsection 248(1) of the Act if that definition

were read without reference to paragraph (c.1) thereof, the amount that may reasonably be regarded as the income of the trust for a taxation year that has been earned by it for the benefit of the employee is paid or payable in the year to the employee, and

(B) are held by or for the account of any person, other than a trust referred to in clause (A), the amount in respect of interest or other additional amounts that may reasonably be considered to have accrued to or for the benefit of the employee to the end of a taxation year is paid in the year to the employee;

(v) the arrangement provides that the employee is to return to his regular employment with the employer after the leave of absence for a period that is not less than the period of his leave of absence, and

(vi) the arrangement provides that, if the employee does not take his leave of absence as provided thereunder, all amounts held for his benefit under the arrangement are to be paid to him out of or under the arrangement in the first taxation year that commences after the end of the deferral period.

(b) established before July 28, 1986 where it is reasonable to conclude, having regard to all the circumstances, including the terms and conditions of the

arrangement and any agreement relating thereto, that the arrangement is not established to provide benefits on or after retirement but is established for the main purpose of permitting the employee to fund, through salary or wage deferrals, a leave of absence from his employment and under which the deferrals in respect of the leave of absence commenced before the end of 1986."

2. Section 1 is applicable to the 1986 and subsequent taxation years.

Release

Communiqué

Immediate Release

Ottawa, August 15, 1986
86-137

TRANSITIONAL RELIEF ANNOUNCED FOR CERTAIN GENERAL AND LIMITED PARTNERSHIPS

The Honourable Michael Wilson, Minister of Finance, today announced transitional relief from the new limited partnership rules proposed in the detailed Notice of Ways and Means Motions to amend the Income Tax Act that was tabled in the House of Commons, June 11, 1986.

The February 26, 1986 federal budget motion provided that the new rules would apply to a general partnership where the liability of the general partners was effectively limited. The June motion extends the scope of the budget proposals so that the new rules would apply to a general partnership where the general partners are protected from loss rather than only from liability.

The Minister is aware of a number of general partnership syndications that were in progress on June 11, 1986 and were relying on the budget motion. In order to provide for a fair transition to the new rules the Minister announced that, in respect of general partnership interests acquired before 1987 pursuant to the terms of

- a prospectus, preliminary prospectus, registration statement or offering memorandum filed before June 12, 1986 and, where required by law, accepted for filing by a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province,

- an offering memorandum in respect of which solicitations were made to prospective purchasers after February 25, 1986 and before June 12, 1986, and which was, where required by law, filed with a public authority referred to above, or
- to an issue of interests, in a partnership formed for the purpose of producing a Certified Canadian Film Production, where the partnership is obligated to make an expenditure in respect of the production of the film pursuant to an agreement in writing entered into by it or on its behalf before June 12, 1986,

the rules which treat such general partnerships as limited partnerships will apply only where any person or partnership has undertaken to indemnify the partner from liability.

As well, the Minister noted that the detailed motion released in June provided that, for the purposes of entitlement to transitional relief, amounts would not be considered to have been required to be expended pursuant to a pre-budget agreement if the expenditure was conditional upon changes to the tax law. The Minister announced that these rules would be modified to apply only in respect of such conditions which were not satisfied or waived before June 12, 1986.

Reference:

Tax Legislation Division
Gerard Lalonde (613) 992-4851

141
FN20
C55
Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Release at 1230hrs EDT

Ottawa, September 5, 1986
86-147

Notes for remarks by
The Honourable Michael Wilson
Minister of Finance
to the American Council for Capital Formation
Consumption Tax Conference

Washington Marriott Hotel
Washington, D.C.

CHECK AGAINST DELIVERY

It gives me great pleasure to be with you today in Washington, and to have been introduced by such a distinguished American as Bob Strauss. Bob is a man who has served his country, his party ... and his clients ... with great skill. He is the type of man you'd like to go to war with -- and certainly never against. That, of course, is meant to be a compliment from a Canadian -- not a job offer!

This portion of your program was originally entitled "Canada Chooses a Business Transfer Tax". That title was based on the expectation that I would be announcing a new Canadian sales tax system earlier this summer. As many of you know, that announcement has not yet taken place, due in great part to events right here in Washington.

The reason for our change in plans is quite simple. When I announced our intention to modernize the Canadian sales tax system last February, it was the latest initiative in a gradual, phased tax reform process commenced one year earlier. Indeed, we had already made significant progress on the corporate and personal tax fronts, and we had given notice that further changes were ahead. This multi-phased approach was influenced not only by our desire for stability but our uncertainty over American intentions.

Since February, much has happened here in the United States. And the surprising speed of your reform process has allowed us to forge ahead with greater confidence. Now that we have a better knowledge of the international terrain, we can move beyond the overhaul of our antiquated manufacturers' sales tax to a comprehensive and integrated reform of our corporate, personal and sales tax systems. Put another way, we are speeding up the reform of personal and corporate taxation to match sales tax reform.

Today, I would like to describe the goals of this tax reform -- Canadian style: our progress to date, the process ahead, and the role of consumption taxes in that process.

In approaching comprehensive tax reform, we in Canada recognize that a truly effective tax system must meet a number of fundamental objectives:

- . it should provide sufficient revenues to finance government programs -- something which politicians often prefer to ignore;
- . it must be appropriate for the economic structure of the nation;
- . it must reflect the basic values of the society; and
- . it must maintain the respect of the taxpaying public.

We also recognize that these social and economic objectives will be different in each country. And that means tax systems must be different -- not necessarily better or worse -- just different.

When one examines the Canadian situation, I believe one can isolate at least seven social, political and economic realities that will shape our tax reform effort. Some may sound familiar -- others are uniquely Canadian.

First, Canada is a huge country with a small population -- the equivalent of the population of California in a country with a land mass much larger than the lower 48 states. Obviously, this means the cost per capita of maintaining a modern national infrastructure is significantly higher than in a physically smaller country with a larger population, such as your own.

Second, throughout our history, Canadians have overcome the handicap of a small population by pooling their resources through the state, to create the economies of scale for massive projects such as railroads and hydro facilities, as well as efficient and effective health and educational institutions. This greater reliance on public investment means Canadians face higher taxes in exchange for lower after-tax expenditures on such things as university fees or medical insurance. This, of course, is a different approach than in the United States, where Americans must pay for many of these goods and services out of their after-tax disposable income. In effect, our countries have achieved similar ends through different means.

Third, not only do we use the state to provide certain goods and services, we also use the federal government to redirect resources between regions, thereby ensuring minimum national standards in all parts of the country. In fact, Canadians feel so strongly about this concept of sharing that the principle of equalization is now entrenched in our constitution. And Canadians in wealthier parts of the country have been willing to pay the price for that principle -- in the form of higher federal government spending levels and higher federal taxes than otherwise would be the case.

This commitment to regional equality has long posed tremendous challenges for both tax policy and macroeconomic management. Simply put, Canada contains a number of less prosperous, thinly populated regions with capital intensive, resource-based economies. These regions surround a more heavily populated central heartland with a diversified economic base. As the person responsible for both the tax system and the macroeconomic management of the economy, I am well aware that the siren song of less government spending financed by a simple tax system could lead to not-so-simply resolved economic problems for residents in our have-not provinces.

Canada is not only a country of distinct geographic regions, it is a decentralized federal state with a unique distribution of constitutional and taxation powers. This creates a fourth factor in the tax reform equation.

Our provinces have extensive constitutional responsibilities in such areas as health, education and welfare. The cost of fulfilling these responsibilities requires the provinces to occupy the sales tax field and particularly the income tax field to a far greater extent than American state authorities. This had led to joint occupation of income and sales tax fields and a complex set of federal-provincial fiscal and tax collection arrangements that must influence any federal tax reform proposals.

Fifth, quite apart from the regional economic impact of tax reform, Canada as a whole is a relatively young country with many capital-intensive industries. Our capital requirements will remain large into the foreseeable future. And that means we must ensure a high domestic savings rate.

Our capital needs also require us to maintain a liberalized investment environment, which leads me to factor number six. Canada maintains one of the most open economies in the world, with a heavy reliance on both exports and imports. Two basic truisms flow from this situation:

- . our corporate and personal tax systems must be internationally competitive; and
- . our total tax system must neither impede export performance nor accord any favour or penalty on imports.

At the risk of getting off-topic, I think it is timely to remember during this period of growing trade protectionism that the open nature of both our economies has led not only to massive trade and capital flows between our two countries, but to significant interdependence. As you know, increasingly freer trade has been a major source of economic growth since the second world war for both our countries.

Unfortunately, this interdependence is being ignored by all those who have made your merchandise trade deficit a current political issue. Those preaching protectionism in both our countries would do well to remember some basic but often forgotten facts:

- much of our two-way trade is in intra-corporate flows at different stages of production;
- the U.S. continues to enjoy a large surplus with Canada in both manufactured products and the entire service account;
- Canadian imports from the United States have grown by 31 per cent since 1982, a period when U.S. exports as a whole grew by only 2 per cent (in current dollars).

To put it bluntly, the extent of our interdependence means that if one country takes aim at the other, it will probably shoot itself in the foot. That's why the current trade talks between our two countries are so important. It would be tragic if the long term interests of both our countries are defeated by the short term political interests of the moment.

But enough of trade politics. Let me return to the seventh factor in the tax policy environment -- our large national debt built up over the past decade.

This economic reality, which may sound familiar, can not be wished away. If governments do not reform fiscal and tax structures in a coordinated fashion, the resulting compounding debt will likely lead to that most unfair tax of all -- high inflation.

Since coming into office, my colleagues and I have worked hard to regain control of government spending. And that effort has produced results. In our first full fiscal year in office, our deficit trend was reversed. The deficit fell last year by 10 per cent, and the policies we now have in place will ensure that this downward trend continues. Underlying the results of last year was a significant reduction in federal program spending -- the first decline in program spending since the war. We are now well placed to reach our goal of fiscal stability at the turn of the decade.

I have described these seven factors today for a very simple reason. Taken together, they not only shape the options for Canadian tax reform. They explain the central role of a modern consumption tax in any effective Canadian tax system.

Since coming to office two years ago, we have been amending our tax system based on these Canadian conditions.

In the sphere of corporate taxation, I released an important document in May of 1985 entitled "The Corporate Income Tax System: A Direction for Change" that document analyzed the problems in our existing corporate tax structure; and it proposed changes consistent with recent American reforms: a lower-rate with a broadened base made possible by the modification or elimination of investment-distorting incentives.

Phase 1 of this process was announced last February with the immediate elimination of certain ad hoc inflation adjustments, and the start of a 3 year phase-out of our investment tax credit, accompanied by a 3 point reduction in statutory rates of tax. Phase 2 lies ahead as part of our comprehensive reform package, and will continue this thrust. Such changes will allow us to stop the continuing erosion of our corporate tax base through the creative but non-productive use of preferences; it will ensure that profitable corporations begin to pay a reasonable amount of tax. And it will encourage investment decisions based on economic realities -- not tax planning.

In the realm of personal income taxation, we have already made a number of major changes. Five initiatives stand out.

First, we have broadened our taxable income base by eliminating a number of tax avoidance and tax deferral techniques, including deferred compensation arrangements, limited partnerships and income splitting. I should add that we started this exercise from a much broader base than the American tax code. For example, we have fewer tax shelters and have never enjoyed the luxury of interest deductions on personal loans or home mortgages.

Second, we have dramatically changed the taxation of capital gains and taxable dividends. On the one hand, we have begun the phasing-in of a \$500,000 lifetime capital gains exemption to encourage entrepreneurship and equity investment. We have increased the tax on eligible Canadian dividends, in part to reflect the relative lack of risk in preferred shares and other debt-substitutes issued by established corporations. And to ensure that wealthy Canadians cannot combine these and other tax preferences to avoid paying tax in any one year, we have created a floor through the introduction of a minimum personal tax.

Third, we have modified the indexation of our tax system and many government expenditure programs -- a policy which will allow us to close the growing gap between revenues and expenditures caused by the indexation of both sides of the ledger to the consumer price index. As I stated earlier, we are determined to go forward with tax and fiscal reform in a coherent and coordinated manner.

Fourth, we are enhancing the ability of the self-employed and those with inadequate employer-provided pensions to better provide for their retirement. Not only will this help our aging population prepare for retirement, it will provide a growing source of savings for future Canadian economic development.

And finally, we have commenced the important process of integrating our social transfer programs with our tax provisions, so that they result in resources being better targetted to those most in need.

These are five major developments. Further changes can be expected as we move forward with comprehensive tax reform. Our goal is to lower marginal rates as far as possible, consistent with Canadian social and economic needs.

And ironically, one of the keys to devising such a competitive personal income tax system is the reform of our sales tax regime.

Unlike the United States, Canada has relied for a significant proportion of its revenues on a manufacturers' sales tax for over sixty years. For decades, its deficiencies have been recognized by manufacturers and the tax community, and documented by numerous government task forces and commissions. Yet, Canadian politicians have studiously ignored the problem, knowing that the general population hardly knew of its existence. But if it has been a less visible source of revenue for governments, it has also been a silent killer of jobs, particularly with the gradual dismantling of tariff barriers since World War II. And it will become an evergrowing obstacle to economic growth and jobs should the current bilateral and multilateral trade negotiations bear fruit.

Since coming to office, we have been studying this tax to discover its true impact. Let me briefly describe our findings.

Incredibly, our manufacturers' sales tax appears to be the only tax in the world that discriminates against its own producers in favour of foreign competitors. Due to the differing tax base on domestic and foreign goods, the effective rate of tax is, on average, one-third higher on Canadian products. In several cases, the effective tax rate is as much as 70 to 80 per cent higher than on competing imports.

This fact alone is reason enough for reform. But the situation is worse.

Not only does the tax discriminate between imports and domestic products, it discriminates against similar products made by different manufacturers in a particular industry.

We have discovered that the effective tax rate for a class of products can vary by as much as three to four times, depending on the channels of trade. In fact, it appears that there are probably as many effective tax rates under the present system for any given product as there are companies which produce it.

Approximately one-half of the total sales tax collected is derived from tax on business inputs such as transportation equipment, office equipment and building materials. The tax on these inputs can then result in cascading, as these inputs may be used to produce goods which are subsequently taxed again.

The result is not only an increase in the cost of investment in Canada, but an indirect charge on exported goods, estimated at approximately 1 per cent of the sales value of exports. That, of course, is a very substantial part of the already narrow profit margins in today's competitive international marketplace.

Our federal sales tax also is too narrowly based. Only about one-third of Canadian consumption is subject to tax. Four products -- tobacco, alcohol, automobiles and parts and motor fuels -- account for 42 per cent of the revenue, though they represent only about 15 per cent of all consumer expenditures.

This narrow base, which is being continually eroded by ingenious court challenges, has forced tax rates to rise for fiscal purposes. And this combination of a narrow base and high rates has distorted the natural and efficient operations of the economy.

Faced with these facts, my colleagues and I have decided that it is simply irresponsible to let sleeping dogs lie. We have a public duty to fix up this mess.

One way would be to eliminate federal sales tax altogether. But that would mean erecting uncompetitive personal and corporate tax structures -- a form of economic suicide.

That leaves us with a second option -- to design a better system. And that is what we plan to do -- to broaden the sales tax base and apply one lower rate through a comprehensive sales tax.

We have reviewed the value-added taxes introduced in other countries and have been examining a business transfer tax. This tax, based on total domestic sales less purchases over a specified period, would be applied at each state in the production-marketing chain. It would be a relatively straightforward calculation for both tax payable and for refunds. It would have limited exemptions to preserve simplicity and efficiency. It would avoid cascading. It would treat domestic products and imports equally. It would remove the indirect, hidden tax on exports; and it would be based on books of account already kept by businesses.

But a business transfer tax would be more than just a vast improvement over our current sales tax, we believe it will help meet the broader social and economic needs of Canada in a number of ways.

It will provide the necessary foundation to enable us to achieve competitive personal and corporate tax structures with lower marginal tax rates in the context of comprehensive reform.

It will allow us the flexibility to offset the inherent regressive nature of consumption taxes with a refundable lower-income tax credit geared to family status, and to integrate this credit into progressive social tax reform I mentioned earlier.

It will encourage the level of savings necessary to finance future private and public investment.

It will give us much more flexibility in managing the Canadian economy and achieving balanced regional impacts.

It will help our industries to better compete in domestic and foreign markets.

And perhaps most importantly, it will help us maintain and enhance such distinctive Canadian institutions and values as accessible health care, affordable higher education, regional equality, public broadcasting and income support for those in need.

So, that is tax reform -- Canadian style; our reasons for pursuing it; and the role of a modern sales tax in that process.

It is a role based on Canadian needs -- factors which may or may not be relevant to the American experience. That is for the American government and its people to decide.

But, whether or not your country ever adopts a national sales tax, we in Canada are going forward.

Two years ago, my colleagues and I were elected on a mandate of change. We were given a mandate to solve the problems of the past, and to lay a foundation for future growth and jobs. And we have made great progress. Our current manufacturers' sales tax is another of these old problems that requires change. Its replacement by a new, modern system in the context of comprehensive tax reform is a step that must be taken if we are to truly fulfill that mandate.

And I can assure you, we are determined to do just that.

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Release

Communiqué

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For immediate release

Publication immédiate

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Ottawa, le 12 septembre 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for April 1986, the first month of the 1986-87 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois d'avril 1986, premier mois de l'année financière 1986-87.

For April 1986, budgetary revenues were \$4,234 million, budgetary expenditures were \$8,694 million and there was a deficit of \$4,460 million. For April 1985, budgetary revenues were \$3,384 million, budgetary expenditures were \$7,453 million and there was a deficit of \$4,069 million.

Les chiffres budgétaires d'avril 1986 montrent des recettes de \$4,234 millions, des dépenses de \$8,694 millions et un déficit de \$4,460 millions. En avril 1985, les recettes s'établissaient à \$3,384 millions, les dépenses à \$7,453 millions et le déficit à \$4,069 millions.

The April 1986 figures do not provide an adequate base for estimating fiscal year 1986-87. The monthly patterns of both revenues and expenditures are subject to a wide degree of year-over-year variations due to such factors as the timing of tax refunds, payments of grants and contributions and purchases of capital assets. The deficit for April 1986 was up due largely to a lump sum interim payment to farmers under the Western Grain Stabilization Act.

Les chiffres du mois d'avril 1986 ne permettent pas d'établir une prévision convenable pour l'année financière 1986-87. Les données mensuelles des recettes et des dépenses fluctuent d'une année à l'autre en raison de certains éléments tels que le calendrier du remboursement des impôts, les paiements à titre de subventions et contributions ainsi que les achats d'immobilisations. Le déficit pour avril 1986 était plus élevé à cause principalement d'un paiement forfaitaire provisoire aux fermiers, sous la Loi de stabilisation concernant le grain de l'Ouest.

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Communiqué

Immediate release

Ottawa, September 17, 1986
86-154

TERMINATION OF PETROLEUM AND GAS REVENUE TAX (PGRT)

The Honourable Michael Wilson, Minister of Finance, today released details of the steps being taken to terminate the Petroleum and Gas Revenue Tax (PGRT), as announced by the Honourable Marcel Masse, Minister of Energy Mines and Resources, on September 8. The measures will also include additional valuable assistance to small exploration companies receiving oil and gas royalty income.

The PGRT will not be payable and the act will be repealed in respect of revenue and royalties that are attributable to production of oil and gas on or after October 1, 1986.

Mr. Wilson said that the removal of the PGRT would provide substantial stimulus to investment and employment in the industry.

"The reinvestment of these funds in exploration and development activity will preserve and create employment in this vital industry," Mr. Wilson said.

The Minister noted that this decision resulted from extensive discussions led by Mr. Masse with industry organizations and major company representatives, in which the industry gave assurances that the PGRT savings would be reinvested in the industry.

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Mr. Wilson added that the decision was taken in co-operation with the provincial governments. He expressed confidence that the removal of the PGRT, combined with provincial policy initiatives, will assist the oil industry in its current difficulties caused by depressed world prices.

The Minister also announced that, in addition to the PGRT termination, and in response to representations from the Small Explorers and Producers Association of Canada, he would extend additional PGRT relief to companies receiving royalty income relating to production in the period from January 1 to September 30, 1986.

"This change will exempt up to \$1,500,000 in royalty income, benefiting many small exploration firms with investments in producing properties," Mr. Wilson said.

This change provides more equitable treatment to a great many smaller oil and gas companies dependent on royalty incomes, who have not benefited from the recent increase in the small producer's credit under the PGRT Act.

The Minister said this assistance recognizes the entrepreneurial role of these companies in the industry's growth and job creation.

Details of the proposed changes to the PGRT Act are provided in the annex to this release.

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ANNEX

PGRT will be terminated in respect of oil and gas revenue and royalties attributable to production of oil and gas on or after October 1, 1986.

The annual small producer's credit and the special \$40,000 deduction available to individuals under the PGRT Act will be prorated to reflect the elimination of PGRT effective October 1, 1986.

To assist small companies, the PGRT Act will be amended so that up to \$1,500,000 of royalty income attributable to production between January 1 and September 30, 1986 may be included in revenues qualifying for the small producer's credit which is currently available only in respect of revenues from a working interest in oil and gas production. Associated corporations will be required to share this benefit. The exemption will replace the special \$40,000 deduction provided to corporations.

Under the current PGRT and Income Tax Act provisions, taxpayers are entitled to offset PGRT liabilities by 30 per cent of the amount of certain exploration and development expenses. Taxpayers will not be entitled to utilize these provisions for expenses incurred after September 30, 1986 to reduce their PGRT liability. Currently, a taxpayer is allowed to deduct, in computing his income for income tax purposes, expenses previously used for the purposes of the 30 per cent PGRT offset. In such a case, he is required to pay a special tax under Part IX of the Income Tax Act on the amount so claimed. This deduction will continue to be available over a transition period -- up to taxation years ending in 1994 -- to give taxpayers time to utilize available deductions.

Eligible exploration and development expenses and enhanced recovery equipment costs incurred by a taxpayer after September 30, 1986 in respect of a prescribed enhanced oil recovery project will not be deductible in computing production revenues from that project. In addition, dispositions by a taxpayer of enhanced recovery equipment after September 30, 1986 will be ignored in calculating the deduction in respect of eligible cost and expenses incurred on or before that date.

Department of Finance
Canada

Ministère des Finances
Canada

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Ottawa, September 18, 1986
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Notes for an address by
The Honourable Michael Wilson
Minister of Finance
to the Canadian Club
Toronto
September 18, 1986

An Update of the Economic
and Fiscal Situation

CHECK AGAINST DELIVERY

Let me say first how much I appreciate the opportunity to speak to the Toronto Canadian Club once again. It's always good to be back home and to see so many old friends and former colleagues.

Most of you are probably aware that we have already begun planning for next February's budget. Indeed, I will be starting pre-budget consultations in the coming weeks. It is important, therefore, that everyone should be informed about significant developments in the nation's economy. Tonight I want to use this opportunity to give you an update on the economic and fiscal situation. I consider this part of an ongoing commitment I have made to make information about the current economic and fiscal situation available in a more timely way. The publication of The Fiscal Monitor, first issued last month, will make a valuable contribution to this more open process. And it will be augmented by another regular publication of the Department of Finance, The Quarterly Economic Review, which will be published for the first time in a few days.

Since taking office, the Progressive Conservative government has brought a fresh approach to the challenge of achieving Canada's economic promise and potential. Our objective was straightforward: sustained economic growth and productive jobs for Canadians. That objective has not changed. And it will not change.

To reach that objective, we have been following a consistent policy agenda. That agenda, set out in November 1984, identified four thrusts essential to economic renewal:

- To get the budget deficit under control.
- To give business a new boost.
- To make the government more efficient in its own operations and less obstructive to the work of the private sector.
- And, to bring about these changes with the sense of equity and openness that characterize Canadian society.

These are still our thrusts, and we are making progress -- very real progress -- in all of them.

We have made it clear from the beginning that fiscal responsibility is absolutely essential if we are to secure durable economic renewal. But fiscal responsibility, after so many years of profligacy, cannot be achieved overnight. So we established a five-year fiscal plan to restore our public finances to a state of health.

We have defined fiscal responsibility by four fundamental principles. These have guided our actions in meeting the challenge of restoring financial health. The government is committed to these principles. We followed them last year, we are following them this year, and we will follow them in the years to come. The principles are these:

First, to reduce the growth in the national debt to less than the growth in the economy by the end of this decade.

Second, to achieve continuing, sizeable year-over-year reductions in the deficit.

Third, to ensure substantial year-over-year reductions in the size of the government's financial requirements.

And fourth, as the primary means of achieving these objectives, to ensure that the greater part of the progress is through expenditure restraint and tight management.

By following these principles, we succeeded in reducing the federal deficit in 1985-86 by \$3.8 billion, a 10-per-cent drop from the record deficit of \$38.3 billion in the previous year. This was the first time in six years the deficit had been chopped. It was only the second time in 16 years. Not only that, but last year's deficit, \$34.5 billion, was virtually bang on target.

Moreover, our progress in improving the deficit last year was markedly better than the United States. In 1985-86, the deficit in Canada dropped 1.4 percentage points relative to gross domestic product compared to the preceding year. By contrast, the American deficit rose 0.7 percentage points.

The key to getting the deficit down is locking the door on spending. Program expenditures -- that is, total government spending excluding interest payments on the public debt -- declined by almost one per cent last year. This was the first noticeable decline in program expenditures since the Second World War. It compares with an average annual growth rate of 12 per cent over the last 10 years.

Moreover, total spending came in \$2.1 billion below the target set out in the May 1985 budget.

The decline in program spending was entirely due to a \$1.6 billion reduction in spending on discretionary, or non-statutory, programs. This considerable accomplishment was greatly aided by the comprehensive work of the Nielsen Task Force in cooperation with business and labour leaders in the private sector. After adjusting for inflation, non-statutory spending dropped more than 8 per cent last year. We have also made changes to statutory programs which will increasingly constrain spending beginning this year.

These figures are not forecasts. They are facts. They are milestones that mark the progress we are making on the road back to fiscal responsibility. They are battles that this government has won.

They are battles, but they are not the whole war. Further deficit reduction is imperative, but economic renewal will not be won by deficit reduction alone. Fiscal responsibility is not a "do nothing" approach to the economy. It is not a "hack and cut" philosophy that tears down but never builds. It is a discipline that demands that we set priorities so that limited resources can be used to support initiatives that will help create, shape and sustain a more prosperous, tolerant and just Canada. This is precisely what we have been doing.

The reduction in government spending means more than simply saving money. It means we are reducing the size of government. Reducing spending is part of a broader effort to streamline existing government programs, sell off Crown corporations, reduce regulation and complete our work flowing from the Nielsen Task Force. It is part of a broad program to give the private sector more room to innovate, to grow and to create jobs.

At the same time as we have acted to streamline government, we have acted to support private initiative -- by encouraging entrepreneurial investment, by cooperating with industry to increase university research, and by pursuing trade initiatives designed to secure our ability to compete fairly in an increasingly competitive world.

But our program is even broader than this. We have acted to increase support for those in need. We have improved standards for private pension plans and strengthened the Canada Pension Plan. We have removed discrimination against women from the Indian Act. We have increased veterans' pensions and brought in needed reforms to our justice system. We have made strides toward greater equality in employment opportunities for women and minority groups. We have introduced a refundable sales tax credit for low-income Canadians and a minimum tax on the wealthy.

The actions we have taken have made our economy stronger, our government more efficient and our society more humane.

The results of our policies to date can be measured, at least in part, by the economic record over the past two years. Looking back, we can see that Canada as a nation and Canadians as a people have experienced some real improvements in our economic well-being.

Take economic growth. In 1985, our real gross domestic product grew at a pace exceeded only by Japan among the major industrial nations. We grew considerably faster than the United States and all other major OECD countries.

Take job creation. Since September 1984, the Canadian economy has created well over half a million jobs. The unemployment rate has fallen from a high of 11.7 per cent in September 1984 to 9.7 per cent last month. There are still too many Canadians without a job, but the picture is brighter than it has been since March 1982.

Take inflation. No more double digits. The consumer price index is down close to 4 per cent. Other price measures show an even better performance. For example, the price measure, or deflator, for gross domestic product, which keeps track of price changes for all goods and services produced in Canada, is now increasing by only 2 1/2 per cent per annum.

Take interest rates. Today mortgage rates are more than three percentage points lower than they were in September 1984. The prime rate averaged just over 12 per cent in 1984, dropped to about 10 1/2 per cent in 1985 and today stands at 9 3/4 per cent. That is less than half of what it was in 1981. It is the lowest it has been in eight years.

Our stronger economic performance has been recognized in the international community. For example, according to the 1986 report of the European Management Forum, published last month, Canada now ranks sixth among the 22 leading industrialized nations examined in our overall competitive position. This is an improvement from eleventh place in just two years.

The latest survey of Canada by the OECD, the organization made up of the western world's 24 leading industrial nations, also noted favourably the significant improvement in our economic performance. The report stressed the very strong performance of the Canadian economy in 1985 with the growth in output being "among the highest in the OECD area" and "employment growth the fastest in the whole OECD".

As the OECD recognized in its report, this improvement has not just happened. It has not been the product simply of accident or happenstance. It is the result of sound, credible fiscal and economic objectives and consistent policy development. It has been attained by laying out a strategy and holding to that strategy.

The economic analyses and statements made by these objective observers have a clear, common message: Canada's economy today is a good deal stronger than it was in September 1984.

Even so, there are those who claim that Canada's healthy economic performance would have happened regardless of the measures we have taken. I take strong exception to that view. Since coming to office two years ago, we have in a variety of ways moved government out of the way of the private sector. And as we have done so, the private sector has responded and performed admirably investing and creating jobs. It has seized the opportunities created by the significant change in policy direction which we initiated two years ago.

In the fall of 1984, the private sector consensus for economic growth in 1985 was 2.3 per cent. In fact, the economy grew at a 4 per cent rate.

As a result, we are today in a better position to meet international competition and to withstand international shocks.

That is vitally important, for nothing is ever static in the world. The world economy is in a period of transition marked by new technology, tougher competition, and changing habits. At the same time as the Canadian economy has improved, new challenges have arisen, and these require new responses. In a number of important ways, the world's economy is different today from what it was only a year ago.

For one thing, Canada's principal trading partners experienced a slowdown in growth in the first half of 1986. The main reasons are trade and fiscal imbalances, uncertainties about rapidly adjusting exchange rates and commodity prices, and debt burdens that have discouraged buying by many less developed countries.

These pressures have contributed to the surge in protectionism in the United States, for example, which is causing great concern.

Through the first half of 1986 there have been additional problems. The sharp drop in world oil prices has hit our producing and exploring areas hard, as the citizens of these parts of the country know only too well.

Another blow has been the dramatic fall in grain prices on the world market, largely the result of the grain war between the U.S. and the EEC.

These economic pressures will not disappear overnight. And they inevitably have consequences for us. In particular they have had negative effects on our trade balance through lower prices for our energy and grain exports.

But despite these pressures, the fundamentals of the economy remain sound and there have been some positive developments. Recent declines in interest rates are particularly encouraging. Lower international oil prices should raise the real purchasing power of consumers, in Canada and in our trading partners, and this will help strengthen economic growth.

Taking all these factors into account, the overall outlook for this year is that economic growth will be somewhat slower than anticipated. While several current economic indicators suggest some weakness in the third quarter, real gross domestic product for 1986 should increase at a rate of about 3 per cent. The increase in the consumer price index for the year will average about 4 per cent. And the unemployment rate by year-end should be at or slightly below the current level of 9.7 per cent.

Growth elsewhere among industrialized countries shows signs of being stronger in the latter part of 1986 than it was at the beginning. Looking ahead to 1987, I anticipate economic growth to strengthen here and elsewhere as the benefits of lower oil prices and interest rates are realized more generally. The strength of growth next year will hinge importantly on policy developments and the economic outlook in the United States, Europe and Japan. This underscores the importance of Canada's achievement in gaining full membership in the "G-7", the group devoted to enhancing economic cooperation among the world's seven leading industrial nations.

This year's fall in oil and grain prices has hit some parts of Canada hard. Once again we have been reminded that we live in a nation of varying and uneven regional economic strengths and endowments.

One of the basic principles of our nationhood is that we respond in times such as these to support regions in particular economic difficulties. To a large extent this happens automatically -- through those mechanisms which economists call "automatic stabilizers". Higher stabilization payments to farmers hurt by

low grain prices -- or an unemployment insurance cheque to an oil worker out of a job -- are among the important ways we in Canada help minimize the effects of economic shocks to regions and sectors.

In the current circumstances, lower oil prices mean that this year government tax revenues will be reduced. Similarly, with the fall in grain prices stabilization payments to our grain farmers will grow.

This reflex response is built into Canada's economic and fiscal structure. It is a necessary response. But it is not always a sufficient response. The government has taken further steps to help the energy and farm sectors. For example, last April the Prime Minister announced an increased exemption for small oil and gas producers from the petroleum and gas revenue tax, and an enhanced fuel tax rebate to help ease the farm community through its financial difficulties. And earlier this month my colleague, the Minister of Energy, announced that the PGRT would be ended as of October 1. That measure in itself will mean a sizeable benefit to activity in the energy sector. But it also represents a corresponding loss in government revenues.

These actions -- both automatic and discretionary -- are providing welcome support to Canadians -- individual Canadians, certainly, but just as importantly to Canadian communities and regions. Without this support, Canada could not and would not be the kind of nation we all take pride in.

But this support, so vital to our well-being as a people, has a corresponding impact on the deficit. As a result of lower oil prices and somewhat slower economic growth than previously foreseen, revenues this year will be \$2 1/2 billion lower than expected.

In these economic circumstances, with the regional difficulties that confront us, I do not believe that this fall in revenues should be offset by tax increases. Equally, it is not appropriate to make up the shortfall through further major cuts in spending this fiscal year. Expenditure reductions of this magnitude at this time, given the expenditure cuts we have already implemented, would be more disruptive and harmful to the economy than a slower decline in the deficit this year. Indeed, it is simply wrong to think that such cuts could be made in the balance of this year without significantly affecting spending on regional

economic support programs and social assistance. To cut spending on these programs -- so important to regions, sectors and individuals in difficulty -- would doubly harm those communities and Canadians that are already hurting.

I want to make it clear, however, that a slower decline in the deficit this year -- in the face of extraordinary economic events -- does not throw us off our track or lessen our commitment.

We are as committed today to our four principles for fiscal responsibility and to our five-year fiscal plan as we were in 1984.

We said we would reduce the growth in the national debt to no more than the growth in the economy by the end of the decade. Reductions in revenue this year will not deter us from this track, and I will take appropriate action in future budgets, if necessary, to ensure that this goal of our five-year fiscal plan is met.

We said we would achieve the greater part of this progress by tight expenditure control. Our record in expenditure control is excellent. Our expenditure plan for this year is still on track. We will meet or better the \$89.4 billion target for program expenditures set out in my February budget.

We said we would achieve a substantial year-over-year reduction in the size of the deficit. We will. Given the economic outlook for the rest of the year, by holding to our expenditure target the deficit will come in at or under \$32 billion. This will mean a substantial decline from last year. And it will be the first time in 16 years that the deficit has decreased two years in a row.

We said we would ensure year-over-year reductions in the size of the government's financial requirements. Exclusive of foreign exchange transactions, the government's financial requirements will fall by almost \$7 billion this year.

Over the past two years the government has acted to strengthen the economy so that it can absorb unexpected economic shocks and still retain its basic strength and resilience.

Moreover, this government possesses the resolute discipline that is at the heart of fiscal responsibility. We have demonstrated that discipline in the past two years, often under severe and unforeseen pressures.

Our decision not to offset the deficit increase this year was taken consciously and positively. We are willing to plan for a slower decline in the deficit this year for three reasons: first, because it cushions the blow of recent economic pressures to hard-hit regions of Canada; second, because our spending is still on track; and third, because a higher than expected deficit this year is not inconsistent with either our five-year fiscal plan or our fiscal principles.

Since coming to office, we have made continued progress in restoring health to our nation's finances. We will continue to do so. This progress is reinforcing the sound foundation on which we can continue to pursue our primary objective of sustained growth and jobs for Canadians.

But to achieve this objective we must also meet challenges that go far beyond the imperative of controlling the national debt. We will respond to the challenges of tax reform, including our commitment to review our social transfers and related tax provisions. We also face bold and far-reaching challenges in securing and enhancing our trade prospects, in developing stronger regional economies, and in promoting social justice and equality of opportunity for all Canadians. These issues and others will test our wits, our courage and our capacity to transform the vision of a better Canada into reality. But rest assured, in pursuing them we will do so within our framework of fiscal responsibility.

These challenges hold out great opportunity and promise.

In addressing each of them, the government is prepared to deal with the issues constructively, openly, creatively, and cooperatively. We will continue to show the leadership that Canadians expect of their government. I am confident that Canadians will seize the opportunity and work with us as we strive to build a better future.

Background Information

Fiscal Projections 1985-86 Fiscal Year Comparison Between 1985 and 1986 Budgets and Outcome

	<u>May 1985 Budget projection</u>		<u>February 1986 Budget projection</u>	<u>Outcome</u>
	<u>Accounting basis*</u>			
	Old	New	New accounting basis	
	(billions of dollars)			
Budgetary deficit	33.8	34.0	34.3	34.5
Financial requirements (excluding foreign exchange)**	28.1	28.4	28.8	30.3
Budgetary revenues	71.2	79.4	78.0	76.8
Budgetary expenditures	105.0	113.5	112.3	111.4
Program expenditures	79.1	87.5	86.6	86.0

* In the February 1986 budget a number of accounting changes were introduced in response to recommendations of the Auditor General. These changes altered the traditional split between budgetary and non-budgetary transactions. The most substantial change was the classification of the operations of the Unemployment Insurance Account as budgetary, thus significantly increasing both budgetary revenues and expenditures. For further details, see *The Fiscal Plan, Annex 1*, February 1986 budget.

** Financial requirements are affected by foreign exchange transactions. During 1985-86, these transactions provided the government with a source of Canadian dollars amounting to \$5.6 billion. Thus, financial requirements including foreign exchange transactions were \$24.6 billion in 1985-86, compared to \$27.4 billion in 1984-85.

Note: Details may not add due to rounding.

Fiscal Projections
1986-87 Fiscal Year
Comparison Between 1985 and 1986 Budgets and Current Projection

	May 1985 budget projection*	February 1986 budget projection	September 1986 projection
(billions of dollars)			
Budgetary deficit	32.5	29.5	32.0
Financial requirements (excluding foreign exchange)	25.0	22.6	23.6
Budgetary revenues	85.8	87.3	84.8
Budgetary expenditures	118.3	116.7	116.8
Program expenditures	89.5	89.4	89.4

* Adjusted to accounting basis introduced in the February 1986 budget.

Note: Details may not add due to rounding.

**Accounting for the Revenue Shortfall
for Fiscal Year 1986-87**

The Impact of Lower Oil Prices and Weaker International Economic Growth

	(millions of dollars)
Personal Income Tax	100
Corporate Income Tax	1,675
Petroleum & Gas Revenue Tax	
— Impact of lower oil prices	425
— PGRT relief for small producers	100
— PGRT elimination	150
Fuel tax credit for farmers	<u>50</u>
Revenue shortfall	2,500

Main Economic Indicators

	1984	1985	1986 (est.)
	(per cent change unless otherwise indicated)		
Real GDP (gross domestic product)	5.6	4.0	3.1
Unemployment rate (year-end level, %)	11.1	10.1	9.6
Employment	2.5	2.8	2.9
Current account balance (\$ billion)	3.4	-0.6	-7.9
Inflation (consumer price index)	4.4	4.0	4.0
U.S. Real GNP (gross national product)	6.4	2.7	2.6
World oil price (\$U.S. per barrel)	29.00	28.08	14.21
Short-term interest rate (90-day commercial paper)	11.2	9.6	9.1

FISCAL UPDATE

FEDERAL DEFICIT

(Billions of dollars)



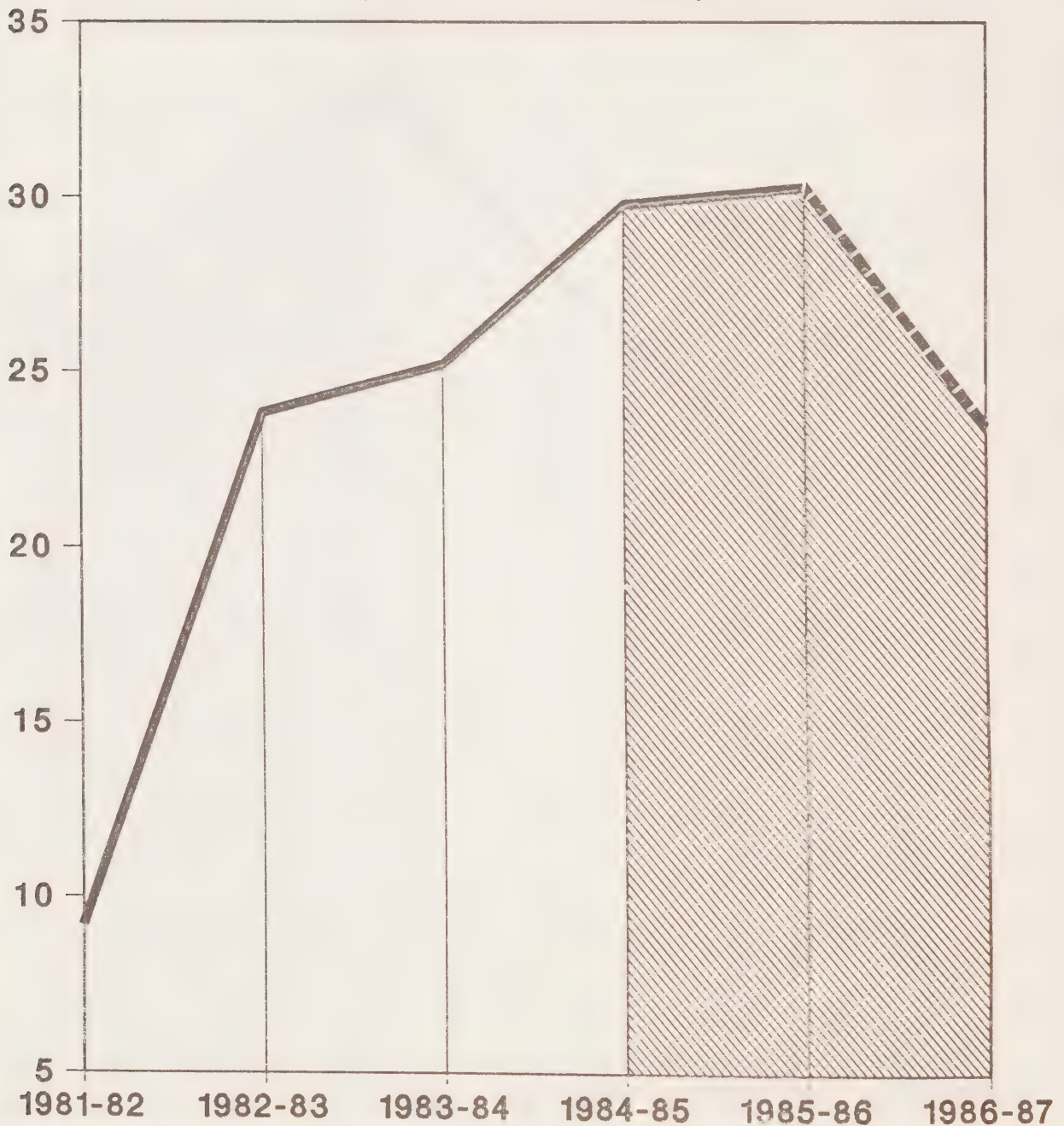
----- Forecast

FISCAL UPDATE

FINANCIAL REQUIREMENTS

(Excluding Foreign Exchange)

(Billions of dollars)



----- Forecast

Canada-United States Fiscal Comparisons National Accounts Basis*

	Canada		United States			
	1984-85	1985-86	1984-85	1985-86		
Year-over-year per cent change						
Program expenditures	11.1	- 0.1	7.0	8.3		
Debt interest	25.1	11.5	19.9	9.0		
Total expenditures	13.7	2.3	8.8	8.4		
Revenues	9.7	9.0	10.3	5.6		
Percentage of gross domestic product (GDP)**						
			Change		Change	
Program expenditures	19.9	18.5	(- 1.4)	21.5	21.9	(+ 0.4)
Debt interest	5.1	5.3	(+ 0.2)	3.8	3.9	(+ 0.1)
Total expenditures	25.0	23.8	(- 1.2)	25.3	25.8	(+ 0.5)
Revenues	17.6	17.9	(+ 0.3)	20.7	20.5	(- 0.2)
Deficit as a percentage of GDP	7.4	6.0	(- 1.4)	4.6	5.3	(+ 0.7)

* The numbers in this table are on a national accounts basis, which is traditionally used for international comparisons. The U.S. data are reported on a basis comparable to Canada. The time period corresponds to the Canadian fiscal year; the data are normalized by GDP – the output measure often used by the Organization for Economic Cooperation and Development for international comparisons; and all fiscal year figures are expressed as a percentage of GDP of the calendar year in which the fiscal year begins.

** Year-to-year changes are presented in brackets.

Note: Details may not add due to rounding.

CAI
FN 20
- 255
Release

Communiqué

Release at 1900 EDT

Ottawa, September 18, 1986

86-156

FINANCE MINISTER GIVES ECONOMIC, FISCAL UPDATE

The Honourable Michael Wilson, Minister of Finance, today presented an update on the country's fiscal and economic situation in an address to the Canadian Club of Toronto.

Highlights of the Minister's address in which he reaffirmed the government's commitment to continued economic and fiscal progress for Canada:

- Government revenues this year will be \$2.5 billion lower than expected because of external forces--including lower oil prices and falling grain prices which have led to slower than expected economic growth.
- Attempts to offset this fall in revenues either by tax increases or through further major cuts in spending this fiscal year would be more disruptive and harmful to the economy than a slower decline in the deficit this year. Such cuts would significantly affect spending on regional economic support programs and social assistance--programs vital to regions, sectors and individuals in difficulty--"and would doubly harm those communities and Canadians that are already hurting."
- Government spending in the current fiscal year is still on track; the reductions in revenue this year do not throw the government off its five-year fiscal track and are not inconsistent with the four guiding principles it has adopted to restore Canada's public finances to a state of health. Action will be taken in future budgets, if necessary, to ensure that the growth in the national debt is reduced to no more than the growth in the economy by the end of the decade.

.../2

- Given the economic outlook, and by holding to the government's expenditure target, the deficit will come in at or under \$32 billion, a substantial decline from last year and the first time in 16 years that the deficit has decreased two years in a row.
- Economic growth in 1986 is expected to be about 3 per cent. The fundamentals of the economy remain sound and growth should strengthen in Canada and elsewhere in 1987.
- The government will continue to move forward on a broad front to achieve Canada's economic promise and potential by responding to the challenges of tax reform, including its commitment to review social transfers and related tax provisions; by working to secure and enhance our trade prospects; by developing stronger regional economies; and by promoting social justice and equality of opportunity for all Canadians. These challenges will be pursued within a fiscally responsible framework.

In strongly reaffirming the government's commitment to restore Canada's public finances to a state of health, Mr. Wilson restated the guiding principles of the government's five-year fiscal plan:

- to reduce growth in the national debt to less than the growth in the economy by the end of this decade;
- to achieve continuing, sizeable year-over-year deficit reductions;
- to ensure substantial year-over-year reductions in the government's fiscal requirements;
- to ensure the greater part of the progress is through expenditure restraint and tight management.

Mr. Wilson said the challenges facing the government hold out great opportunity and promise. "In addressing each of them, the government is prepared to deal with the issues constructively, openly, creatively and cooperatively. We will continue to show the leadership that Canadians expect of their government. I am confident that Canadians will seize the opportunity and work with us as we strive to build a better future."

Release

Communiqué

Immediate Release

Ottawa, September 19, 1986

86-157

NEW ISSUE OF CANADA SAVINGS BONDS PLANNED THIS FALL

The Honourable Michael Wilson, Minister of Finance, today announced that a new issue of Canada Savings Bonds (Series 41) will be offered to investors this Fall. The new series will be available for cash starting October 27 and will bear interest starting November 1, 1986. Further details, including the rate of interest to be paid, will be provided around mid-October.

The October announcement will also specify the rate of interest to be paid on all outstanding and unmatured Canada Savings Bond issues for the year commencing November 1, 1986.

For the one year period ending November 1, 1986, Series 32, 34, 35 and 36 provide for an annual rate of return of 10 1/2 per cent, while Series 37, 38, 39 and 40 all provide an average rate of return for the year of 9 per cent. After November 1, 1986, each issue bears a specified minimum rate of interest which is guaranteed until maturity. These guaranteed minimum annual rates are 10 1/2 per cent for Series 35 and 36, 8 1/2 per cent for Series 37, 7 per cent for Series 38 and 39, and 6 1/2 per cent for Series 40.

Mr. Wilson reminded holders of Canada Savings Bonds series 32, issued in 1977, and Series 34 issued in 1979, that these bonds mature on November 1, 1986 and will not earn interest after that date. Investors who wish to apply the redemption proceeds from these maturing bonds towards a purchase of the new Fall CSB issue should contact any authorized CSB sales or issuing agent before the end of October to ensure that the transaction can be completed before the sales termination date.

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Mr. Wilson also announced that this year's issue of CSBs will be available for cash purchase or through payroll deduction under the Payroll Savings Plan, but will no longer be available through the Monthly Savings Plan. Under this Plan, investors were formerly able to purchase bonds through certain financial institutions on monthly instalments, subject to a financing charge equivalent to the first-year rate payable on the new issue. This Plan is being discontinued because of its declining popularity with investors and because of its very high administrative costs to participating financial institutions and to the government.

Release

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Communiqué

Immediate Release

Ottawa, October 3, 1986

86-165

CHANGES ANNOUNCED CONCERNING THE TAX TREATMENT OF TRUSTS

The Honourable Michael Wilson, Minister of Finance, today announced his intention to introduce legislation limiting the flow-through of investment tax credits (ITCs) through trust financing vehicles.

As the February 1986 budget indicated, the government is concerned with the proliferation of transactions which provide tax benefits to investors in excess of those generated by the funds they have put at risk. While the Minister expressed his disappointment that trusts were being used in a manner inconsistent with this policy, he noted the statement made in the February budget that the rules restricting the deduction of tax credits and losses might have to be extended beyond limited partnership financing vehicles.

After today, only ITCs earned by testamentary trusts will be eligible for flow-through to the beneficiaries of the trust. Transitional rules will allow the flow-through of investment tax credits on eligible property earned by other trusts where all of the following conditions apply:

- the property was acquired by the trust before 11:00 a.m. EDT on October 3, 1986 or the trust was obligated unconditionally to acquire the property pursuant to a written agreement entered into before that time and the property was acquired before 1987;
- the units of the trust were acquired by the unit holder before 11:00 a.m. EDT today, or the unit holder was obligated unconditionally to acquire the units pursuant to an agreement in writing entered into before that time and acquired before 1987;

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- none of the agreements respecting the acquisition of the property or the units of the trust is conditional on the consequences under the Income Tax Act, and
- the ITC can only be allocated to the original purchaser of the unit of the trust.

For further information, please contact:

Gérard Lalonde
Senior Tax Policy Officer
Tax Policy - Legislation Division
(613) 992-3045

Department of Finance
Canada

Ministère des Finances
Canada

CAI
FN
Release

Communiqué

Release at 1900hrs EDT

Ottawa, October 9, 1986

86-170

Notes for an address by
The Honourable Michael Wilson
Minister of Finance
to L'association québécoise de planification
fiscale et successorale
Montreal
October 9, 1986



Pension Reform

CHECK AGAINST DELIVERY

I am delighted and honoured to be here this evening.

Your organization has earned the widespread respect and prestige others may well envy. As Minister of Finance, I especially appreciate the important contribution you make to the understanding of economic issues in Quebec and the rest of Canada. And I know you will continue to perform this valuable role.

Last week, the Speech from the Throne gave a positive, wide-ranging view of where the government intends to lead Canada over the course of the next two years -- and beyond. One of many initiatives highlighted in the throne speech was pension reform. Tonight I want to take this opportunity to discuss the government's pension reform program. In particular, I want to deal with some important new measures that I tabled today in the House of Commons to improve the tax treatment of retirement saving.

Reform of Canada's retirement income system has been a major commitment of the Progressive Conservative government since we took office. Prior to our election, Canadians had waited a long time for the promise of pension reform to be fulfilled. Public debate and study have dragged on for more than a decade.

Over that time, Canadians have had to live with a pension system riddled with inequities. You have all heard unfortunate and sometimes tragic stories about Canadians treated unfairly by the system. You have heard the complaints time and again:

- that workers changing jobs were unable to earn rights to pension benefits;
- that if workers had acquired pension rights, they were unable to take these rights with them to a new job;
- that not enough workers had the opportunity to join a pension plan;

- that many workers would have liked to take early retirement, but their pension plan did not provide for it;
- that women were treated as second class citizens under many pension plans;
- that spouses of plan members were left with nothing if their spouse died, or were denied an equal share of pension entitlements if a marriage dissolved.

You have also heard the concerns about the Canada Pension Plan:

- that the financial health of the plan itself was in grave jeopardy;
- that provisions for early retirement were lacking;
- that disability benefits were inadequate and eligibility requirements too rigid;
- that women were given short shrift by the plan when it came to credit and benefit splitting and survivor benefits.

You have been aware of the inequities in the tax treatment of retirement savings:

- that it has unfairly restricted some Canadians in saving for their retirement;
- that those whose only means for saving for retirement is a registered retirement savings plan have received less favourable tax treatment than members of employer-sponsored pension plans.
- that many people, in the absence of carry-forward provisions for tax assistance, have permanently lost the opportunity for that assistance because more pressing financial priorities prevented them from contributing in a given year.

You will also recall the active debate about registered retirement income funds. From that debate it was clear that the rules governing RRIFs were too restrictive and limited their contribution to retirement security.

Ladies and gentlemen, this government has addressed each of these problems in the most wide-ranging and comprehensive reform of our pension system ever undertaken. All of them have been widely felt and widely recognized for many years. Their significance has been magnified by the enormous national challenge of the future -- meeting the needs of a rapidly aging population. These problems have called for solutions and they have called for action. This government has acted.

Our actions seek to balance two fundamental objectives:

- ° First, to ensure basic income support for the needy elderly. That is our general social responsibility as Canadians.
- ° And second, to ensure, on a uniform and equitable basis, adequate opportunities for Canadians to provide for their own retirement through the exercise of individual initiative and self-reliance. Canadians believe -- and the government shares that belief -- that it should be up to individual citizens to decide how, and to what extent, they want to save for their retirement. It is not the role of government to decide what people should spend for today and save for tomorrow. We want to encourage the exercise of self-reliance within a system that is both equitable and that provides flexible opportunities for retirement saving.

In a diversified pension system such as we have in Canada, change in itself does not amount to reform. Real reform requires that changes to the various components of the pension system be complementary. Changes must take into account the entire system. They must be carefully coordinated. And they must strengthen each part in relation to the others. This has been our approach.

Let me take a moment to review the progress we have made in improving the total pension system.

First, we have assisted those who need help most -- the elderly poor:

- We extended eligibility for the spouse's allowance to all widows and widowers aged 60-64. Some 50,000 low-income elderly Canadians, most of whom are women, are benefiting from this measure.
- We acted to make veterans' pensions more equitable and generous. This measure will benefit thousands of disability pensioners and widows and widowers of veterans.

By these actions, the government has confirmed our commitment to ensure that Canada's elderly, especially those most in need, receive adequate incomes.

Second, we have acted decisively, with the provinces, to strengthen and improve the Canada Pension Plan.

We have:

- provided new flexibility for Canadians to start drawing CPP pensions after age 60, rather than 65;
- improved disability benefits and eased eligibility requirements for these benefits;
- introduced new rules for credit splitting on marriage breakdown, pension splitting on retirement and the continuation of survivor benefits after remarriage -- all of which remove inequities in the treatment of women;
- and, we have put the CPP on a sound financial footing for the future with a new funding arrangement.

As a result of these important changes, Canada's public pension plan will be better able meet the retirement needs of Canadians in the years to come.

We were able to secure these improvements only by working closely and cooperatively with the provinces. As you may know, changes to the CPP require provincial approval. Quebec, of course, is responsible for the QPP and is making similar improvements. Clearly, what we have accomplished attests both to the leadership of the federal government and the collective will of all governments to bring the long years of pension debate to a fruitful culmination.

This cooperative spirit has also been decisive in achieving a high degree of consensus on the third major component of pension reform -- improved minimum standards for private pension plans. Changes to the federal Pension Benefits Standards Act, governing private pension plans falling under federal jurisdiction, will come into effect January 1, 1987. Among many improvements, the changes will:

- provide workers with rights to their pension benefits after two years of plan membership;
- ensure that workers who change jobs are able to take their pension benefits with them;
- guarantee equal pensions for men and women retiring under identical circumstances;
- establish survivor benefits for spouses;
- give more workers the opportunity to join pension plans and to participate in the management of pension plans; and
- allow for the splitting of pensions between spouses in the event of marriage breakdown.

These reforms represent a dramatic breakthrough in pension fairness. They respond to the real needs of Canadians in our rapidly changing society. And their impact will be far-reaching, because most provinces have agreed to enact parallel legislation affecting the 3 1/2 million people and their families who come under the provincial pension umbrella. This consensus will ensure a high degree of uniformity in pension standards across the country. As a result, Canadians will enjoy the same protection, wherever they live.

The government has also made changes to the rules governing registered retirement income funds. These changes will make RRIFs a more useful retirement income tool.

- the maximum limit on annual RRIF payments has been removed;
- individuals will no longer be limited to one RRIF;
- and, payments from a RRIF will be permitted to start any time after purchase of the fund, instead of the next calendar year.

These measures provide Canadians greater flexibility to manage their retirement income and to increase the scope for ensuring retirement security.

The government will also put public service pension plans on a sound financial basis.

The final area of our comprehensive approach to pension reform -- an area I want to devote some attention to today -- is an improved and more equitable system of tax treatment for retirement saving.

The basic principle of our Canadian approach to tax treatment of retirement saving is this: within limits, money saved to provide for a pension is taxed only when it is drawn out as a pension, not when it is saved. In this way Canadians are able to provide a more adequate retirement income for themselves. And in so doing they provide the nation with savings to finance new investment for growth and jobs.

The current system fully reflects this principle for those who are members of some employee-sponsored defined benefit plans. However, the system falls short of the principle for many Canadians -- namely, the self employed, those in money purchase plans, and those who work for employers offering either less generous defined benefit plans or no plan at all.

To rectify these inequities, the May 1985 budget proposed a thorough overhaul of the tax treatment of contributions to registered pension plans, deferred profit sharing plans and registered retirement savings plans. The purpose of these proposals was to give all Canadians an equal opportunity to provide themselves with adequate retirement income.

These proposals were based on three simple principles:

- ° First, the amount of tax assistance available should be comparable for individuals with the same income, regardless of whether they belong to a defined benefit plan, an employer-sponsored money purchase plan, or make their own retirement savings arrangements through

RRSPs. Therefore, the maximum dollar contribution limits for money purchase plans are being raised to a level that will put them on a par with the tax assistance now accorded to defined benefit plans.

- ° Second, no more tax assistance than this should be available. Equitable treatment also requires tightening the rules. There should no longer be opportunities to obtain tax assistance for retirement savings in excess of the maximum limits.
- ° And third, individuals should have greater flexibility in timing their pension contributions. It is not unusual that circumstances may make it impossible for people to take full advantage of available tax assistance in a particular year. Such room to build a reasonable pension should not be permanently lost. A seven-year carry-forward provision for tax-assisted contributions is therefore being introduced.

Having set out our proposals, we consulted extensively -- with employers, with employees, with union representatives and the pension industry. These consultations made it clear that, if implemented, our proposals would greatly improve the system of tax treatment for retirement saving. Furthermore, the system would more fully reflect the virtues of fairness and flexibility.

But the consultations also made it clear that one proposal should be further refined in the interests of even greater fairness. It was generally felt that the proposed \$2,000 limit on RRSP contributions by members of defined benefit plans should be adjusted to reflect differences in benefit rates among such plans.

We responded to this concern. We went back to the drawing board. With the help of many people -- including a number of members of the AQPFS -- we developed an alternative way of providing fairer contribution limits. The result is a revised method of calculating RRSP contribution limits for members of defined benefit plans that will, I am convinced, meet the concerns expressed during the consultations.

The revised method of calculation is reflected in the new rules I made public earlier today. It will mean that defined benefit plan members with similar incomes but different pension benefit rates will be put on an equal footing for tax treatment purposes in building comparable pensions.

The objective is to permit all Canadians to build a pension over a full career equivalent to 60 to 70 per cent of their final earnings. Actuaries calculate that to provide a pension equivalent to 2 per cent of final earnings for each year of service requires about 18 per cent of earnings to be saved each year. Thus the new system, when fully phased in by 1990, will allow workers to put aside tax-free 18 per cent of earnings up to a maximum of \$15,500 each year.

For most members of less generous defined benefit plans or money purchase plans, or for those without any company pension plan at all, the new system will permit them to provide much more adequately for their retirement. They will now have the same tax treatment for their retirement saving as people in more generous defined benefit plans.

How will this be achieved? The new system will allow all Canadians to contribute to their RRSP an amount equivalent to 18 per cent of their earnings, less an amount that reflects the benefits accrued in the year through contributions to a member's plan by the individual and the employer. This amount is called the "pension adjustment."

For those Canadians contributing only to RRSPs, and not earning benefits during the previous year under a RPP, the pension adjustment will be zero. This means they will be able to contribute a full 18 per cent of earnings to their RRSP, to a maximum of \$15,500 per year.

For members of money purchase plans and DPSPs, the pension adjustment amount will simply be the total of the employee and employer contributions to the plan in the previous year.

For members of defined benefit plans, the calculation is more complicated and depends on the benefit provisions of the plan. For most members of 2-per-cent final earnings plans that are not integrated with the CPP or QPP, the pension adjustment will be approximately the full 18 per cent of pensionable earnings.

For all who are members of plans with lower benefits, the pension adjustment will be commensurately lower. They will have the opportunity to contribute to their RRSP the difference between 18 per cent of earnings and this pension adjustment amount.

To make calculations easier for taxpayers, Revenue Canada will notify all taxpayers of their RRSP contribution limits by way of a mailed statement. Individuals will receive this statement in sufficient time to make their contribution by the end of February.

In order for Revenue Canada to provide this service, contribution limits will be based on previous year's earnings.

The pension adjustment is not simply a mathematical technicality. It is, in fact, the key to the remarkably high degree of equity embodied by the new system. Equal tax treatment will be assured for Canadians saving for retirement, regardless of their employment situations or the pension vehicles they use. And unintended tax assistance will no longer be available beyond maximum limits -- another important dimension of fairness.

As announced in May 1985, the contribution limits will rise in stages to reach \$15,500 by 1990. To maintain fairness across the board at each stage in the phase-in period, rising RRSP contribution limits must lag one year behind total pension contribution limits. Accordingly, the contribution limits for the 1986 and 1987 taxation years will remain unchanged at \$7,500. Thereafter they will rise by \$2,000 a year from \$9,500 in 1988 to \$15,500 in 1991.

By 1990, the maximum dollar contribution limit will be roughly equivalent to the annual contribution required to purchase a \$60,000 pension at retirement. This is the maximum pension that can be earned currently in a conventional company pension plan.

The May 1985 discussion paper had proposed that these maximum limits be increased after 1990 to match the rate of increase in the average industrial wage. The government has decided not to provide for adjustments at this time. Instead, we will review the adjustment of these dollar limits in the broader context of tax reform.

Reform of tax treatment for retirement saving will create new possibilities for the design of pension plans and other savings arrangements. This new flexibility will go a long way to meeting the needs of employers as well as employees.

But to realize these new advantages, it will be necessary for employers who sponsor pension plans or DPSPs to calculate and report annually a pension adjustment for each employee. The government recognizes that this requirement will impose a new compliance burden in addition to the necessary amendment of payroll reporting systems. To make this transition as easy as possible, Revenue Canada will work with employers to set up effective reporting arrangements.

I want now to underline an important aspect of the new rules which will greatly enhance the fairness of the system -- the seven-year carry-forward provision. Anyone who understands the importance of greater flexibility for retirement saving will recognize what a boon the carry-forward will be for countless Canadians. Consider, for example, a young person just entering the work force. How many young people starting a first job or buying a new home put retirement saving high on their priority list? What the carry-forward provision offers these people is time to make a start and build their earning power without forfeiting a year or more of their pension-building capacity. When they are in a position to begin contributing, the contribution room will be there. In a similar way, self-employed Canadians will acquire greater flexibility to save for an adequate pension over time, despite the income ups and downs businesses can experience.

There are a number of other important issues stemming from the reform proposals that I want to touch on at this time.

New pension registration rules will be released next spring to replace those in Revenue Canada's current information circular. The new regulations will reflect the new contribution limits and they will be adjusted to accord with federal and provincial pension benefits regulations.

To ensure the even application of the maximum pension limits, some important rules will be codified in the Income Tax Act or regulations. Others will remain in a revised information circular.

The new registration rules will take effect January 1, 1988 for all money purchase provisions and new defined benefit provisions. For existing defined benefit provisions, the effective date will be January 1, 1990.

New tax rules will apply to funded plans set up to provide retirement income above what is available under registered plans. These rules will come into effect on January 1, 1988.

We feel that there will be no need for additional voluntary contributions under the new system of contribution limits. Accordingly, no deductions will be allowed for AVCs made after October 8, 1986.

The May 1985 budget proposed that tax-free transfers of pension income to RRSPs no longer be permitted. We are going ahead with that proposal. Income which does not end at retirement should not be a base for retirement savings incentives.

However, to assist those people currently at or near retirement, there will be a transition period to December 31, 1994 before the measures take full effect. Contributions to RRSPs out of pension income will be permitted to continue during this period to 1989. For the years 1990 to 1994, transfers of pension income to a spousal RRSP will be permitted, up to a limit of \$6,000 a year. This will assist those people whose retirement pensions do not provide survivor benefits.

The new tax treatment of retirement savings represents a quantum leap forward in pension reform. When fully implemented, it will provide fair, flexible and equitable opportunities for Canadians -- whatever their employment situation, whatever their pension circumstances -- to build income security for retirement.

Fairer tax treatment, together with improved standards under the Pension Benefits Standards Act, a strengthened Canada Pension Plan, harmonized provincial action and our commitment to assist the elderly poor -- all these constitute a coherent, coordinated approach to the real needs of today's and tomorrow's elderly.

Pension reform is, without question, a massive undertaking. But the quality of retirement life for countless Canadians, now and in the future, depends on it. Today's pension reform will enable this generation, and future ones, to grow old with the peace of mind which comes from the assurance of a better, more secure life in retirement.

Release

Communiqué

Release at 1500 EDT — C55

Ottawa, October 9, 1986
86-171

IMPROVED TAX TREATMENT FOR RETIREMENT SAVING

The Honourable Michael Wilson, Minister of Finance, today initiated parliamentary action to provide fairer and more flexible tax treatment for retirement saving by Canadians.

Mr. Wilson tabled a Notice of Ways and Means Motion introducing the fifth stage of the government's program to improve Canada's private and public pension system. He said the goal is "to ensure a more secure future for all Canadians as they reach their retirement years."

The legislation will implement proposals for tax treatment of retirement savings announced in the May 1985 budget, but with improvements reflecting extensive consultations since then with employers, union representatives and pension industry experts.

One major feature is the adoption of a uniform set of comprehensive limits for tax assistance to retirement saving. The result will make available comparable tax treatment for all Canadians despite differences in their employment or pension situations.

One set of comprehensive contribution limits for tax assistance -- 18 per cent of earned income up to a maximum dollar limit -- will be phased in over the balance of the decade to reach \$15,500 in 1990.

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Another major provision will allow greater flexibility in the timing of retirement saving, by means of a seven-year carry-forward provision for individuals who do not use their allowable RRSP contribution room fully. This will effectively mean more generous contribution limits for millions of Canadians who would otherwise lose available RRSP contribution room.

The legislation also sets out a more equitable method -- revised from the proposals in the May 1985 budget -- for calculating the limits for RRSP contributions by members of defined benefit pension plans. The new limits will vary with the pension plan's benefit rate -- that is, the pension-building capacity of the pension plan.

To make it easier for individuals to know their RRSP contribution room, Revenue Canada will calculate each individual's contribution limit each year and advise him or her of this figure through a special notice towards the end of the year. As at present, taxpayers will have 60 days after the end of each year in which to make RRSP contributions in respect of that year.

Because of the time required for this Revenue Canada calculation and reporting, the new system will begin in 1988 with allowable RRSP contributions to be based on earnings in the previous year. Thus the dollar limit on RRSP contributions will rise in 1988 from the present \$7,500 to \$9,500, rising by \$2,000 steps to \$15,500 in 1991.

For members of defined benefit plans, RRSP contribution room will be 18 per cent of earned income in the previous year to the dollar contribution limit, minus a pension adjustment amount indicating contribution room used on account of benefits accrued under the plan during the year.

For members of money purchase plans, the pension adjustment will simply be the sum of employee and employer contributions to the plan in the previous year.

For non-members of employer plans in the previous year, no pension adjustment will apply. RRSP contribution room will be 18 per cent of earned income in the previous year to the dollar contribution limit.

The annual pension adjustment amount for each plan member will be reported to Revenue Canada by sponsors of pension plans.

Under a new provision, contribution room may be restored in some instances where employees leave a plan without retaining rights to pension benefits.

As part of the phase-in to the new system, the rules applying in 1986 on tax assistance for pension plan contributions will also apply in 1987.

The proposals announced today are part of the broad approach to pension reform which has already included four earlier actions by the government which;

- strengthened Canada's basic income support programs by extending the spouse's allowance to all widows and widowers aged 60 to 64;
- placed Canada Pension Plan financing on a sound basis for the longer term with significant improvements in benefits to take effect next January 1;
- introduced major changes in the law governing minimum standards for private pension plans under federal jurisdiction, of particular benefit to part-time workers, women in the work force and spouses of pension plan members, also effective next January 1;
- provided greater flexibility for the management and withdrawal of individual retirement savings in RRSPs and registered retirement income funds.

"As a result of all of these changes involving pensions in both the private and public sectors," Mr. Wilson said, "Canada now has one of the most equitable and comprehensive programs of support for retirement income available in the world today."

Further details of the proposals are contained in a document, Improved Tax Treatment: Detailed Rules and Procedures, which is available from Revenue Canada, Taxation offices.

- instaurer une plus grande mesure de souplesse dans la gestion et le retrait de l'épargne-retraite des REER et des Fonds enregistrés de revenu de retraite.

«Grâce à tous les changements apportés aux régimes de pensions des secteurs public comme privé,» a affirmé M. Wilson, «le Canada s'est doté d'un des programmes les plus équitables et les plus complets de soutien du revenu de retraite du monde actuel.»

On trouvera plus de détails sur les propositions dans la publication Régime fiscal amélioré: règles et procédures détaillées, disponible aux bureaux de Revenu Canada-Impôt.

Aucun facteur d'équivalence ne s'appliquera dans le cas d'employés qui ne participaient pas, l'année précédente, à un régime offert par l'employeur. Les droits de cotisation à un RRR s'établiront à 18 pour cent du revenu salarial de l'année précédente jusqu'à concurrence du maximum prescrit.

Les promoteurs des régimes de pensions devront soumettre à Revenu Canada un facteur d'équivalence annuel pour chaque participant à un régime.

Une nouvelle règle permettra dans certains cas de rétablir les droits à cotisation d'un employé lorsque ce dernier quitte un régime sans garder le droit à des prestations de retraite.

Dans le cadre de l'instauration progressive du nouveau système, les règles applicables en 1986 à l'aide fiscale bénéficiant aux cotisations de retraite s'appliqueront également en 1987.

Les propositions annoncées aujourd'hui s'inscrivent dans le cadre plus global de réforme du système des pensions, lequel comprend quatre initiatives prises précédemment par le gouvernement afin de :

- renforcer les programmes de soutien du revenu de base au Canada en élargissant l'admissibilité à l'allocation de conjoint à tous les veufs et veuves âgés de 60 à 64 ans;
- placer le financement du Régime de pensions du Canada sur des bases saines à long terme et d'en améliorer sensiblement les prestations à compter du 1er janvier prochain;

- ajouter d'importants changements à la loi qui régit les normes minimales des régimes privés de retraite de compétence fédérale, changements qui profiteront tout particulièrement aux travailleurs à temps partiel, aux femmes sur le marché du travail et aux conjoints des participants à des régimes de pensions, également à compter du 1er janvier prochain;

Une autre disposition importante permettra un échelonnement plus souple de l'épargne-retraite, grâce à la possibilité de reporter pendant sept ans les droits de cotisation à un REER qui ne seront pas entièrement utilisés. Cela se traduira par une hausse effective des plafonds de cotisation pour des millions de Canadiens qui, autrement, perdraient des droits de cotisation à un REER.

La législation prévoit également une nouvelle méthode -- différente des propositions du budget de mai 1985 -- pour calculer le plafond de cotisation à un REER des salariés participant à un régime de pension à prestations déterminées. Les nouveaux plafonds varieront en fonction du taux de calcul des prestations du régime, c'est-à-dire de la capacité de constitution d'une pension offerte par le régime de retraite.

Pour simplifier le calcul des droits de cotisation des contribuables, Revenu Canada établira chaque année leur plafond de cotisation et les en informera au moyen d'un avis spécial envoyé vers la fin de l'année. Comme à l'heure actuelle, les contribuables auront jusqu'à 60 jours après la fin de l'année pour verser des cotisations de REER imputables à l'année écoulée.

En raison du temps nécessaire à ces calculs et à ces avis de Revenu Canada, le nouveau système débutera en 1988 et les droits de cotisation aux REER seront fondés sur les gains de l'année précédente. Ainsi, le maximum de cotisation à un REER passera de \$7,500 à \$9,500 en 1988, puis augmentera par tranches de \$2,000 par la suite, pour atteindre \$15,500 en 1991.

Pour les participants à un régime de pension à prestations déterminées, les droits de cotisation seront établis à 18 pour cent du revenu salarial de l'année précédente à concurrence du maximum prescrit, moins un facteur d'équivalence indiquant la mesure dans laquelle les droits de cotisation ont été utilisés sur le compte des prestations acquises par le régime au cours de l'année.

Pour les participants à des régimes à cotisations déterminées, le facteur d'équivalence sera tout simplement la somme des cotisations d'employé et d'employeur au régime au cours de l'année précédente.

Release

Communiqué

Publication à 15h00 HAF

Ottawa, le 9 octobre 1986
86-171

RÉGIME FISCAL DE L'ÉPARGNE-RETRAITE AMÉLIORÉ

Le ministre des Finances, l'honorable Michael Wilson, a déposé aujourd'hui au Parlement des mesures visant à instaurer un régime fiscal plus équitable et plus souple pour l'épargne-retraite des Canadiens.

M. Wilson a déposé un Avis de motion des voies et moyens mettant en place la cinquième étape du programme entrepris par le gouvernement pour améliorer le système de pensions publiques et privées au Canada. Il a déclaré que l'objectif était «d'assurer un avenir plus sûr à tous les Canadiens lorsqu'ils arrivent à l'âge de la retraite».

Les mesures législatives mettront en oeuvre les propositions fiscales concernant l'épargne-retraite annoncées dans le budget de mai 1985, mais avec des améliorations qui relient les consultations intensives tenues depuis cette date auprès des employeurs, des milieux syndicaux et des spécialistes en régimes de retraite.

On notera particulièrement l'adoption d'un ensemble uniforme de plafonds d'aide fiscale à l'épargne-retraite. Cela permettra à tous les Canadiens d'être traités de manière identique au point de vue fiscal, peu importe leur situation sur le plan de l'emploi ou des pensions.

Un ensemble uniforme de plafonds globaux de cotisation ouvrant droit à une aide fiscale -- 18 pour cent du revenu salarial, à concurrence d'un maximum prescrit -- sera mis en vigueur progressivement d'ici la fin de la décennie pour atteindre \$15,500 en 1990.

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Release

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86-172

For immediate release

Publication immédiate

Ottawa, October 10, 1986

Ottawa, 10 octobre 1986

MONTHLY STATEMENTS OF
FINANCIAL OPERATIONS

ETATS MENSUELS DES
OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for May 1986 and the first two months of the 1986-87 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de mai 1986 et les deux premiers mois de l'année financière 1986-87.

For May 1986, budgetary revenues were \$7,697 million, budgetary expenditures were \$8,693 million and there was a deficit of \$996 million. For May 1985, revenues were \$6,458 million, expenditures were \$8,528 million and there was a deficit of \$2,070 million.

Les chiffres budgétaires de mai 1986 montrent des recettes de \$7,697 millions, des dépenses de \$8,693 millions et un déficit de \$996 millions. En mai 1985, les recettes s'établissaient à \$6,458 millions, les dépenses à \$8,528 millions et le déficit à \$2,070 millions.

For the first two months of the 1986-87 fiscal year, revenues were \$11,931 million, expenditures were \$17,387 million and there was a deficit of \$5,456 million. For the same period last year, revenues were \$9,842 million, expenditures were \$15,981 million and there was a deficit of \$6,139 million.

Les deux premiers mois de l'année financière 1986-87 ont produit des recettes de \$11,931 millions contre des dépenses de \$17,387 millions d'où un déficit de \$5,456 millions. La période correspondante de l'an dernier avait donné des recettes de \$9,842 millions, des dépenses de \$15,981 millions et un déficit de \$6,139 millions.

...

The figures for April and May 1986 do not provide an adequate base for estimating fiscal year 1986-87. The monthly patterns of both revenues and expenditures are subject to a wide degree of year-over-year variations due to such factors as the timing of tax refunds, payments of grants and contributions and purchases of capital assets.

For further information:

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

Les chiffres des mois d'avril et mai 1986 ne permettent pas d'établir une prévision convenable pour l'année financière 1986-87. Les données mensuelles des recettes et des dépenses fluctuent d'une année à l'autre en raison de certains éléments tels que le calendrier du remboursement des impôts, les paiements à titre de subventions et contributions ainsi que les achats d'immobilisations.

Pour de plus amples renseignements:

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Release

Communiqué

Immediate release

Ottawa, October 16, 1986
86-174

TERMS OF NEW SERIES OF CANADA SAVINGS BONDS ANNOUNCED

The Honourable Michael Wilson, Minister of Finance, today announced that the 1986/87 series of Canada Savings Bonds will offer investors 7.75 per cent interest in the first full year and a guaranteed minimum of 5.75 per cent in each of the following six years to maturity in 1993.

Mr. Wilson also announced that the individual purchase limit for bonds of this new series will be \$75,000. "This limit, however, will not restrict holders of maturing series S32 and S34 bonds from converting the full principal amount of their certificates coming due November 1," the Minister said. "The maturing amount can be in addition to the \$75,000 limit."

Mr. Wilson said he anticipates "strong public demand for the new issue because of the attractive first-year return as well as other valuable features of Canada Savings Bonds." He also emphasized that the 5.75 per cent rate offered after the first year "is a minimum and, as in past years, may be adjusted upward."

Canada Savings Bonds of the new series (S41) will go on sale Monday, October 27, and no accrued interest will be charged when purchased up to and including Friday, November 7. However, as with past series of Canada Savings Bonds, the Minister reserves the right to terminate sales at any time at his discretion.

The Minister further announced that the rate for each of the last three issues of Canada Savings Bonds (S38 dated 1983, S39 dated 1984 and S40 dated 1985) has been adjusted to 7.75 per cent for the year beginning November 1, 1986. After this one-year period, the guaranteed minimum annual rate for each of these series (7.00 per cent for S38 and S39 and 6.50 per cent for S40) will continue to apply.

The S35, S36 and S37 series will continue to earn interest at their annual minimum rate. For S35 and S36, this rate is 10.50 per cent. For S37, this rate is 8.50 per cent.

THE NEW SERIES

The new series will be dated November 1, 1986 and will again be offered in two forms - Regular Interest Bonds which pay interest annually by cheque or direct deposit, and Compound Interest Bonds, on which interest is left to accrue and compound annually.

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Investors may cash the new bonds at any time, but it should be noted that no interest will be paid on bonds of this issue cashed during the initial three months from the November 1 date of issue; there will be no penalty for bonds redeemed after January 31, 1987. Interest on this series will accrue on a monthly basis. In cases where Regular Interest Bonds are redeemed during the months of September and October in any year, unearned interest will be deducted from the redemption proceeds and a full year's interest will be forwarded to the investor on the following November 1. This procedure facilitates the preparation of annual interest payments.

The bonds may be registered only in the name of bona fide residents of Canada, estates of deceased persons, or a trust governed by certain types of deferred savings and income plans, including Registered Retirement Savings Plans, Registered Pension Plans, Deferred Profit Sharing Plans, Employee Profit Sharing Plans, Registered Retirement Income Funds, and Registered Education Savings Plans.

No person may have a beneficial interest in this series greater than \$75,000. However, there will be an exception to this purchase limit for holders of the 1977/78 (S32) and 1979/80 (S34) series of Canada Savings Bonds which mature this fall. Holders of these maturing series may convert the full principal component of the redemption proceeds into the new issue without affecting this year's purchase limit.

Investors may purchase their bonds at banks and other authorized sales outlets including investment dealers, stock brokers, trust and loan companies, credit unions and caisses populaires. In addition, some 10,000 firms and organizations across the country will operate Payroll Savings Plans to permit employees to acquire bonds by payroll deductions.

Both types of bonds will be available for cash purchase. Only the Compound Interest Bond is available under the Payroll Savings Plan offered at many workplaces. The deadline for organizations offering the Payroll Savings Plan to submit their bulk employee applications to an authorized issuing agent will be Friday, November 21, even if cash sales are terminated earlier. Investors are reminded that Canada Savings Bonds are no longer available through the Monthly Savings Plan effective this year.

On Compound Interest Bonds, accrued interest is compounded automatically after the first year. The rate at which compound interest is earned will be equal to the simple annual interest rate payable for that year.

Both types of bonds are registered as to principal and interest. The Regular Interest Bonds offer the convenient option of direct deposit of interest. Investors wishing to have annual bond interest deposited directly into their chequing or savings account may make the necessary arrangements where they normally bank. Both types of bonds will be offered in denominations of \$300, \$500, \$1,000, \$5,000 and \$10,000, while a \$100 bond will also be available in compound interest form only. There is a limit of five bonds in the \$100 denomination for each registered owner.

OUTSTANDING UNMATURED ISSUES

As in the past, payment of the rate of return on outstanding unmatured Canada Savings Bonds will be made according to the series and type of bond as follows:

a) Series dated November 1, 1983 to 1985 inclusive(S38 to S40):

Regular Interest Bonds of these series will earn simple annual interest at the rate of 7.75 per cent for the year beginning November 1, 1986. As a result, holders of Regular Interest Bonds will receive an annual interest payment of \$77.50 per \$1,000 bond on November 1, 1987.

Compound Interest Bonds will earn both simple annual interest and compound interest at the rate of 7.75 per cent for the year beginning November 1, 1986. The value of each \$1,000 Compound Interest Bond as of November 1, 1986 and November 1, 1987 is as follows:

<u>Series</u>	<u>Value at November 1, 1986</u>	<u>Value at November 1, 1987</u>
1983/84 (S38)	\$1,329.85	\$1,432.91
1984/85 (S39)	\$1,212.63	\$1,306.60
1985/86 (S40)	\$1,090.00	\$1,174.48

b) Series dated November 1, 1982 (S37):

Regular Interest Bonds of this series will earn simple annual interest at a rate of 8.50 per cent for the year beginning November 1, 1986. As a result, holders of Regular Interest Bonds will receive an annual interest payment of \$85.00 per \$1,000 bond on November 1, 1987.

Compound Interest Bonds will earn both simple annual interest and compound interest at the rate of 8.50 per cent for the year beginning November 1, 1986. As a result, the value of a \$1,000 Compound Interest Bond will rise from \$1,489.43 on November 1, 1986 to \$1,616.03 on November 1, 1987.

c) Series dated November 1, 1980 and 1981 (S35 and S36):

Regular Interest Bonds of these series will earn simple annual interest at the rate of 10.50 per cent for the year beginning November 1, 1986. As a result, holders of Regular Interest Bonds will receive an annual interest payment of \$105.00 per \$1,000 bond on November 1, 1987.

Compound Interest Bonds will earn simple annual interest at the rate of 10.50 per cent and compound interest at the rates shown as follows for the year beginning November 1, 1986. The value of each \$1,000 Compound Interest Bond as of November 1, 1986 and November 1, 1987 is also provided.

<u>Series</u>	<u>Compound Interest Rate</u>	<u>Value at November 1, 1986</u>	<u>Value at November 1, 1987</u>
1980/81 (S35)	11.25%	\$2,091.80	\$2,319.66
1981/82 (S36)	10.50%	\$1,818.07	\$2,008.97

MATURED AND MATURING ISSUES

The Minister reminds holders of the 1977/78 (S32) and the 1979/80 (S34) series that these bonds will mature on November 1, 1986 and will not earn interest after that date. Although these series mature November 1, investors who wish to apply the redemption proceeds from their maturing bonds towards a purchase of the new issue may contact any authorized Canada Savings Bonds sales or issuing agent at their convenience during October to arrange the transaction.

Holders of Regular Interest Bonds from these maturing series received their interest payments each year. Holders of Compound Interest Bonds have not yet received any interest as it was left to accumulate until redemption or maturity. By the November 1, 1986 maturity date a \$1,000 Compound Interest Bond of these series will be worth:

<u>Series</u>	<u>Value at November 1, 1986</u>
S32 (1977/78)	\$2,699.28
S34 (1979/80)	\$2,339.93

By November 1, 1986, all Canada Savings Bonds issued prior to 1980 (S1 to S34) will have matured and will not be earning any interest. Holders of Canada Savings Bonds should check their bonds to see if they have any of these matured series.

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

Ottawa, October 23, 1986

86-177

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Notes for an address by the
Honourable Michael Wilson,
Minister of Finance
to the House of Commons
October 23, 1986

Pre-budget Consultations
Tax Reform

CHECK AGAINST DELIVERY

Canada

Ottawa, Canada K1A 0G5
613 992-1573

I welcome the opportunity to address the House today.

My colleague, the Minister of State for Finance, and I will very shortly begin a new round of pre-budget consultations. I cannot overstate the importance I accord these meetings. The presentations by representatives of the business, labour, consumer, social and voluntary communities are invaluable to a Finance Minister. They make an indispensable contribution to the decision-making process. Indeed, pre-budget consultations have become one of the most effective forces for economic and social progress by achieving better communication between the government and Canadians, better understanding of the problems facing the country and -- the ultimate purpose of the exercise -- better solutions to these problems.

The forthcoming round of consultations will focus on the key elements of the government's economic strategy. That strategy has had one overriding objective -- the renewal and sustained growth of the economy and the creation of jobs for Canadians.

We are succeeding. The economic indicators attest to that. But most important, we have made significant progress in laying the foundation for a more productive, dynamic economy capable of sustaining growth. This is vitally important. Economic growth is necessary to provide the higher living standards and improved quality of life that all Canadians seek. Growth provides opportunities for Canadians; and it provides resources to advance the collective social and cultural priorities that distinguish our nationhood.

We have laid the foundation for growth by addressing the fundamental, enduring structural problems that have been the cause of the high levels of unemployment and interest rates that we inherited as a government.

Further progress depends on our continuing to build on the strong foundation we have put in place. That is our plan. And our consultation agenda reflects this vitally important continuity and consistency. I want to take this opportunity today briefly to tell Members about our agenda for consultation. Then I want to deal in some detail with one of the main items on the agenda -- tax reform.

The first agenda item is fiscal responsibility.

Sound, responsible management of the nation's finances continues to be crucial if Canadians are to have the full benefits of a more productive and prosperous economy. Restoring health to the nation's finances and maintaining health in the economy are, in fact, synonymous. A healthy, secure economic future cannot be achieved unless we make the most efficient use of scarce resources. As Members know, we are committed to a fiscal plan that reduces the deficit annually to the end of the decade. I will be seeking the views of Canadians on measures that should be considered to achieve this.

The second item on our consultations agenda is improving the climate for economic growth and job creation.

Our objective is to encourage and facilitate a continuing improvement in the competitive position of our economy and private sector. From the outset our renewal program has recognized the critical importance of a dynamic private sector. Past policies have often obstructed private sector initiative and stifled opportunities for economic development. This government has given the private sector a firm vote of confidence. We have been acting to identify and remove obstacles to private initiative, such as overbearing government regulation, inadequate and short-sighted provisions for training and skill development, and disincentives for investment. At the same time we have sought opportunities to encourage entrepreneurial activity and to encourage the full participation of young people and women in Canadian economic life. We will continue to pursue these important thrusts.

In my last budget I initiated a review of our major social transfer payments and related tax provisions, and I set out four principles to guide that review. As we proceed with the review, I will be seeking to develop measures that are consistent with the directions of comprehensive tax reform.

In these and other areas, we are relying on the assistance of Canadians to help identify problems and offer solutions. We will also welcome suggestions on where we might reallocate resources to higher priority areas in order to continue to address the challenges of economic growth, development and social justice in a fiscally responsible way.

The third item on the consultations agenda is promoting trade and expanding foreign markets.

Ensuring Canada's stature as a superior world trader is a compelling national imperative. Our economic well-being derives largely from our ability to compete. If we are to maintain and improve that well-being, then we must be better than the world's competition. We must also enhance our access to traditional markets, secure new ones and generally improve our competitive position world-wide. I am looking forward to the views of business and labour on matters that bear on our ability to compete.

The fourth item for consultation -- one that I want to discuss in some detail -- is tax reform.

Members will recall that on July 18 of this year I announced the government's intention to proceed with a review of options for comprehensive tax reform. Tax reform itself is not a new initiative. In the 1984 Agenda paper the government identified the tax system as an obstacle to growth and reform of the tax system as an important dimension of economic renewal. In a gradual and measured way over the past two years we have introduced a number of important improvements to the tax system.

- ° In the area of corporate tax, we have taken steps to broaden the tax base, reduce tax rates, remove investment-distorting incentives, and simplify the system.
- ° In the area of personal income tax, we have broadened the tax base by eliminating a number of tax avoidance and deferral techniques, and introduced a minimum tax to ensure that high-income people cannot avoid paying any tax.
- ° And this year I began a detailed examination of a possible replacement for the outdated, unfair and inefficient federal sales tax.

We have made progress. But in considering the further progress we wish to make, and in light of the recent major changes in the United States, we decided that a broader approach to tax reform in Canada is required. Such an approach would consider the system as a whole. It would seek a better balance among personal, corporate and sales taxes. And it would make complementary changes in a coordinated way.

My July 18 announcement signalled that new approach.

Comprehensive tax reform offers Canada an important opportunity to make changes to meet today's realities and to gear up to meet the challenges of the decades to come.

We have the opportunity to make the tax system simpler and fairer for all Canadians. We have the opportunity to create a tax environment that more effectively encourages productive economic activity and supports social justice. We have the opportunity to shape a tax system that meets the national need for a stable source of revenue to finance essential public services. These are the main objectives of tax reform.

The reform effort is being carried out within a number of specific guidelines. These guidelines provide the basis for constructive discussion in the approaching consultations. I want now to review these guidelines.

First, fairness. No characteristic of the tax system is more important in the minds of Canadians than fairness. The government has already made a start at enhancing the equity of the tax system. We have introduced a minimum personal income tax. We have curtailed tax-shelter financing and eliminated the use of limited partnerships to avoid tax. We halted the practice of income splitting through interest-free loans between family members as a means of reducing tax. These are all steps in the right direction.

But much more remains to be done. Clearly, the tax system must ensure the fair sharing of the tax burden among taxpayers. People in similar circumstances should be treated by the system in the same way. High income individuals and profitable corporations should all pay their fair share. It is our intention to reduce sharply the special tax preferences for individuals and corporations. By doing so we will be able to reduce significantly the rates of personal income tax paid by Canadians. And that will mean higher take-home pay.

We will look at ways of further improving support for low-income Canadians through the tax system. We have already introduced a refundable sales tax credit and prepayment of the child tax credit. Tax reform offers the opportunity to build on these progressive measures.

Because the current federal sales tax treats similar products very differently, and because different rates of tax apply to various goods and services, an important part of the overall tax burden is unevenly distributed across the economy. Similar products should bear the same rate of tax, and the sales tax burden should be spread more equally across goods and services.

The second guideline is simplification. It is not difficult to believe that the word Canadians are most likely to associate with the tax system is "complex". The more complex the tax system is, the more likely it is to lose the respect and confidence of most Canadians and thereby to diminish its effectiveness.

A simpler tax system can be achieved on a number of fronts: simpler tax forms, improved tax policies, a broadened tax base, and a simpler rate structure. These would result in less need for business and individuals to take tax considerations into account in day-to-day business and financial decisions.

Tax reform will aim to make compliance easier for individual Canadians. And it will aim to make the system simpler for small businesses. By doing so, we will strengthen the self-assessment principle that is the basis of our tax system.

Third, balance. One of the biggest problems in the present tax system is that the amount of personal income tax Canadians are paying is too high. Over the last two decades personal income tax has increased sharply, both as a share of federal revenues and as a share of Canadians' earnings.

This excessive reliance on the personal income tax must be halted. The government believes that personal income taxes should be reduced to leave more money in the pockets of Canadians to spend or save as they see fit. This means we will be seeking higher revenues from the corporate and sales tax systems. This will be done in a balanced, fair way.

Fourth, revenue stability. We must ensure that tax reform increases the certainty of achieving the revenue goals that the government sets. A stable and predictable source of revenue is essential to the government's budgeting process, just as it is for Canadian companies and individuals. However, certain features of the corporate and sales tax systems contribute to revenue instability. Such instability makes it difficult to manage the nation's finances responsibly.

Revenue stability can be increased by limiting tax expenditures, reforming the federal sales tax and reducing the need for ad hoc changes in tax rules.

Members are well aware of the government's commitment to fiscal responsibility. It is the government's intention to ensure through reform of the tax system a sounder, more predictable revenue base. It is not our intention to take greater

revenues. However, while tax reform is proceeding, I can not preclude other tax action if such action is necessary to meet the goals of fiscal management and economic and social policy.

Fifth, international competitiveness. Earlier I spoke of the necessity of keeping Canada competitive in world trade. The tax system should reinforce the ability of Canadians to compete internationally. Given the major changes in the United States -- particularly reduced corporate and personal tax rates -- we in Canada must ensure that our tax system keeps in step where our competitive position is at stake.

The corporate tax system must continue to be conducive to investment by both Canadians and non-residents. This will maintain and enhance our job creating ability. Because people -- their knowledge, skills and drive -- are the key to a successful modern economy, we must ensure that the tax system is not a deterrent to retaining and attracting key people. Our sales tax system is also in need of reform to remove the serious competitive biases that currently put our exports at a disadvantage and favour imports.

Sixth, economic growth. Relatively high marginal rates, a narrow base and numerous selective write-offs, deductions and credits have reduced the role of business judgment in shaping investment decisions and made tax considerations far too influential. Such a system does not make for the most efficient allocation of capital nor for the most productive economic activity.

In pursuing tax reform, we shall intensify our examination of the multitude of tax preferences that have built up in both the income tax and sales tax systems over the years. Reducing the number of selective tax preferences, broadening the tax base and lowering tax rates will give market opportunities a greater role in determining investment decisions. The result will be a more efficient allocation of capital and, over the long term, better prospects for job-producing economic growth. Lower tax rates will also result in a greater incentive for Canadians to work and invest.

A reformed tax system must also recognize distinctively Canadian priorities and values. This is another important guideline. Tax reform should provide an environment that assists in meeting national social and economic needs, including regional needs.

The tax system must be sensitive to our commitment to build greater regional equality. To help finance our large capital requirements, it must encourage domestic savings. It must continue to be able to support the provision of affordable post-secondary education and medical insurance. And it must reflect our commitment to social justice by providing effective ways to assist Canadians most in need.

Eighth, measured transition. The implementation of tax reform should not leave Canadians in doubt about tax rules when they are making decisions. The government is committed to a measured transition so that businesses and investors will not need to suspend their long-term planning while changes in the tax system are being discussed. A measured transition will also allow taxpayers time to understand the new system and to adjust to it.

A final important guideline is consultation. I reaffirmed at the outset my personal commitment to consultation as essential to effective policy-making. Consultation will be especially important for such a far-reaching initiative as comprehensive tax reform. Tax reform needs to proceed within a healthy and constructive atmosphere of dialogue. I will be keenly interested in receiving the views of all Canadians in the course of the coming pre-budget consultations.

I will ask for the involvement of Honourable Members in this process and I will be referring the guidelines and directions set out in the document I am tabling today for review.

I will also consult extensively with my provincial colleagues in an effort to ensure harmonized tax systems across the country.

Fiscal responsibility and tax reform are clearly linked. The options for tax reform would be severely limited if we did not continue our commitment to reduced budget deficits and greater spending control. Through continued expenditure restraint, we are creating considerably more flexibility for tax reform.

My remarks today, and the documents I am tabling in the House, mark the beginning of my new round of pre-budget consultations. The issues I shall be discussing with Canadians are crucial to our nation's continuing ability to provide jobs and prosperity.

As the next step in the tax reform process, I intend to issue specific directions for change at the time of my next budget.

In my November 1984 economic statement I said we must address the causes of our economic problems, not just the symptoms. It is evident from our record of performance and our plans for building on that performance that we are indeed doing what we said we would do.

Comprehensive tax reform clearly presents an enormous opportunity and an equally major challenge. By reducing the number of tax breaks that benefit only a few, by ensuring that profitable corporations pay their fair share, and by relying more on corporate and sales tax revenues, we will be able to cut personal income tax rates. That means increased take-home pay for Canadians. And the overall result will be a simpler, fairer and more efficient tax system.

That is our goal -- a goal worthy of this nation and worthy of our dedicated efforts. In pursuit of that goal I am looking to you and to all Canadians as willing and committed partners.

J'ai déclaré dans mon exposé économique de novembre 1984 que nous devions nous attaquer aux causes de nos problèmes économiques, et non uniquement aux symptômes. Il ressort avec évidence de notre bilan de réalisations ainsi que des plans que nous exposons afin de poursuivre les progrès accomplis, que nous faisons exactement ce que nous avions annoncé.

Une réforme complète de la fiscalité offre manifestement d'énormes possibilités et représente un défi tout aussi important. En réduisant le nombre des avantages fiscaux dont une poignée de contribuables bénéficient, en assurant que les sociétés qui réalisent des bénéfices paient leur juste part des impôts et en recourant davantage à l'impôt des sociétés et à la taxe de vente, nous serons en mesure d'abaisser les taux d'imposition des particuliers. Les Canadiens verront ainsi augmenter leur paye nette. Le résultat global sera un régime fiscal plus simple, plus équitable et plus efficace.

Tel est notre but, un but qui est à la hauteur des aspirations de cette nation et mérite que nous y consacrons tous nos efforts. Dans la poursuite de cet objectif, je sais pouvoir compter sur vous-mêmes et sur tous les Canadiens, à titre de partenaires coopératifs et déterminés.

on débattrà des modifications du régime fiscal. Une transition graduelle donnera également aux contribuables le temps de comprendre les nouvelles règles et de s'y adapter.

Un dernier et important principe directeur est la consultation. J'ai rappelé au début mon attachement personnel à la consultation, dans laquelle je vois un moyen essentiel à l'élaboration de politiques efficaces. La consultation revêtira une importance toute particulière dans une tâche de l'envergure d'une réforme complète du régime fiscal. La réforme fiscale doit se dérouler dans un climat de dialogue sain et constructif. Je serai extrêmement désireux d'obtenir le point de vue de tous les Canadiens au cours de la prochaine série de consultations prébudgétaires.

Je solliciterai la participation des députés à ce processus et délégerai les principes directeurs et les orientations exposées dans les documents que je dépose aujourd'hui pour fins d'examen.

Je mènerai aussi des consultations approfondies auprès de mes homologues provinciaux afin d'essayer d'instaurer des régimes fiscaux harmonisés d'un bout à l'autre du pays.

Le sens des responsabilités financières et la réforme fiscale sont évidemment liés. Les possibilités de réforme fiscale seraient considérablement limitées si nous ne poursuivions pas notre effort de réduction des déficits budgétaires et de reprise en main des dépenses publiques. Grâce à une restriction constante de nos dépenses, nous accroissons considérablement les possibilités de réforme fiscale.

Les observations que je présente aujourd'hui et les documents que je dépose à la Chambre donnent le coup d'envoi de ma nouvelle série de consultations prébudgétaires. Les questions dont je débattrai avec les Canadiens sont cruciales pour le maintien de la capacité de la nation d'assurer travail et prospérité.

La prochaine étape du processus de réforme fiscale consistera pour moi à exposer des axes précis de changement, lors de mon prochain budget.

En sixième lieu, la croissance économique. Des taux marginaux d'imposition relativement élevés, une assiette étroite et de nombreuses dispositions sélectives de déduction, de défalcation et de crédit d'impôt ont réduit le rôle des facteurs économiques et commerciaux dans les décisions d'investissement et donné beaucoup trop de place aux considérations d'ordre fiscal. Un système de ce genre ne permet pas l'affectation la plus efficace du capital, ni les activités économiques les plus productives.

En poursuivant la réforme fiscale, nous intensifierons l'examen des nombreuses dispositions préférentielles qui se sont accumulées au cours des années tant dans la fiscalité directe que dans la fiscalité indirecte. La réduction des mesures fiscales sélectives, l'élargissement de l'assiette des impôts et l'abaissement des taux donneront aux forces du marché un plus grand rôle dans les décisions d'investissement. Il en résultera une affectation plus efficiente du capital et, à long terme, de meilleures perspectives de croissance économique et de création d'emplois. De même, l'abaissement des taux d'imposition encouragera davantage les Canadiens à travailler et à investir.

La réforme fiscale doit également tenir compte des priorités et valeurs authentiquement canadiennes. Voilà un autre principe important. La réforme fiscale devrait favoriser un cadre qui contribue à la satisfaction des besoins économiques et sociaux de la nation, et notamment des besoins régionaux.

Le régime fiscal doit tenir compte de notre volonté de promouvoir l'égalité entre les régions. Pour contribuer à financer nos importants besoins de capitaux, il doit encourager l'épargne intérieure. Il doit continuer de soutenir des services abordables d'assurance médicale et d'enseignement postsecondaire. Enfin, il doit refléter l'importance que nous attachons à la justice sociale en fournissant des moyens efficaces de venir en aide aux Canadiens les plus nécessiteux.

En huitième lieu, une transition graduelle. La mise en oeuvre de la réforme fiscale ne devrait pas laisser les Canadiens dans l'incertitude au sujet des règles applicables au moment où ils prennent leurs décisions. Le gouvernement tient à prévoir une transition graduelle, de manière que les entreprises et les investisseurs n'aient pas besoin de suspendre leurs plans à long terme quand

En quatrième lieu, la stabilité des recettes. Nous devons veiller à ce que la réforme fiscale rende plus certaine la réalisation des objectifs de recettes que le gouvernement se fixe. Une source de recettes stable et prévisible est aussi indispensable à l'établissement des budgets gouvernementaux qu'aux sociétés et aux simples particuliers. Or, certaines caractéristiques de la fiscalité directe et indirecte contribuent à l'instabilité des recettes. Cette dernière rend difficile une bonne gestion des finances de la nation.

On peut accroître la stabilité des recettes en limitant les dépenses fiscales, en réformant la taxe fédérale de vente et en réduisant la nécessité des changements ponctuels des règles fiscales.

Les députés n'ignorent pas l'importance que le gouvernement attache au sens des responsabilités financières. Le gouvernement se propose, par la réforme fiscale, d'asseoir les recettes sur une base plus sûre et plus prévisible. Nous n'avons pas l'intention d'accroître les recettes fiscales. Cependant, pendant que la réforme fiscale suivra son cours, je ne peux exclure d'autres mesures si elles se révèlent nécessaires pour atteindre les objectifs de gestion financière et de politique économique et sociale.

En cinquième lieu, la compétitivité internationale. J'ai mentionné précédemment la nécessité de maintenir la compétitivité du Canada dans le commerce mondial. Le régime fiscal devrait renforcer la capacité des Canadiens de relever le défi de la concurrence internationale. Etant donné les importants changements adoptés aux États-Unis -- et notamment l'abaissement des taux d'imposition des particuliers et des sociétés -- nous devons veiller à ce que notre régime fiscal reste à jour, dans les domaines où notre compétitivité est en jeu.

Le régime fiscal des sociétés doit continuer de favoriser les investissements aussi bien des Canadiens que des non-résidents. Cela permettra de maintenir et d'accroître notre capacité de création d'emplois. L'économie moderne repose principalement sur les gens -- leurs connaissances, leurs compétences et leur dynamisme; c'est pourquoi nous devons veiller à ce que le régime fiscal ne nous empêche pas d'attirer et de conserver des gens talentueux. Notre régime de taxe de vente doit également être réformé, afin d'éliminer les graves distorsions concurrentielles qui, à l'heure actuelle, défavorisent nos exportations et

avantagent les importations.

Comme l'actuelle taxe fédérale de vente soumet des produits similaires à un régime très différent et que divers biens et services supportent des taux différents de taxation, une partie importante du fardeau fiscal global est répartie de manière inégale dans l'économie. Des produits comparables devraient être taxés au même taux, et le fardeau de la taxe de vente devrait être réparti de manière plus égale entre les biens et les services.

Ensuite, la simplification. Nous n'avons aucune peine à croire que l'adjectif qui vient le plus naturellement à la bouche des Canadiens pour qualifier le régime fiscal est « complexe ». Plus le régime fiscal est complexe, plus il risque de perdre le respect et la confiance de la plupart des Canadiens, et donc, son efficacité.

On peut rendre le régime fiscal plus simple de plusieurs façons : en simplifiant les formulaires d'impôt, en améliorant les politiques fiscales, en élargissant l'assiette de l'impôt et en instaurant un barème de taux plus simple, pour permettre aux entreprises et aux particuliers de ne pas tenir autant compte des considérations fiscales dans leurs décisions commerciales et financières quotidiennes.

La réforme fiscale visera à rendre le système plus simple pour les petites entreprises. Elle aura également pour but de faciliter l'observation des règles par les particuliers. Ainsi, elle renforcera le principe de l'autocotisation sur lequel repose notre régime fiscal.

En troisième lieu, l'équilibre. L'un des plus gros problèmes du régime fiscal actuel est que les Canadiens paient trop d'impôt personnel. Au cours des deux dernières décennies, l'impôt sur le revenu des particuliers a fortement augmenté, en proportion à la fois des recettes fédérales et du revenu des Canadiens.

Cette dépendance excessive sur l'impôt des particuliers doit cesser. Le gouvernement estime que les impôts sur le revenu des particuliers devraient être réduits afin de laisser aux Canadiens plus d'argent à dépenser ou à épargner, à leur gré. Cela signifie que nous chercherons à accroître le produit de l'impôt des sociétés et de la taxe de vente. Nous le ferons de manière équilibrée et équitable.

Nous avons la possibilité de rendre le régime fiscal plus simple et plus juste pour tous les Canadiens. Nous avons la chance d'instaurer un climat fiscal qui encouragera plus efficacement les activités économiques productives et favorisera la justice sociale. Nous avons l'occasion d'élaborer un régime fiscal qui répondra à la nécessité nationale d'une source de recettes stable afin de financer les services publics essentiels. Tels sont les principaux objectifs de la réforme fiscale.

Le processus de réforme est mis en oeuvre dans le cadre d'un certain nombre de principes directeurs précis. Ces principes directeurs constituent la base d'un débat constructif pour les prochaines consultations. J'aimerais les passer en revue.

D'abord, l'équité. Aucune caractéristique du régime fiscal n'est plus importante aux yeux des Canadiens que l'équité. Le gouvernement a déjà commencé à améliorer l'équité du régime fiscal. Nous avons institué un impôt minimum sur les particuliers. Nous avons réduit le financement en exemptions d'impôt et éliminé l'utilisation des sociétés en commandite pour éviter l'impôt. Nous avons mis fin au fractionnement du revenu au moyen de prêts sans intérêt entre membres d'une même famille pour réduire les impôts. Toutes ces mesures constituent des pas dans la bonne direction.

Il reste cependant encore beaucoup à faire. De toute évidence, le régime fiscal doit assurer une juste répartition du fardeau des impôts entre les contribuables. Des particuliers placés dans des situations identiques devraient être soumis au même régime fiscal. Les personnes à revenu élevé et les sociétés qui réalisent des bénéfices devraient toutes payer leur juste part des impôts. Nous nous proposons de réduire considérablement les préférences fiscales spéciales consenties aux particuliers et aux sociétés. Cela nous permettra d'abaisser sensiblement les taux d'impôt personnel des Canadiens. Ces derniers pourront ainsi accroître leur paye nette.

Nous examinerons les façons d'améliorer encore l'aide aux Canadiens à revenu modeste par l'intermédiaire du régime fiscal. Nous avons déjà instauré un crédit d'impôt remboursable au titre de la taxe de vente et le versement anticipé du crédit d'impôt pour enfant. La réforme fiscale nous offre la possibilité de continuer sur la lancée de ces mesures progressistes.

Les députés se rappellent peut-être que, le 18 juillet dernier, j'avais annoncé l'intention du gouvernement de procéder à un examen des options qui s'offraient à lui pour réformer en profondeur le régime fiscal. La réforme fiscale n'est pas en soi une initiative nouvelle. Dans son Programme de 1984, notre gouvernement a vu dans le régime fiscal un obstacle à la croissance et considéré la réforme de ce régime comme un élément important du renouveau économique. De façon progressive et ordonnée, nous avons apporté depuis deux ans d'importantes améliorations au régime fiscal.

° Dans le domaine de la fiscalité des sociétés, nous avons pris des mesures pour élargir l'assiette de l'impôt, abaisser les taux, éliminer les mesures incitatives qui faussaient les investissements et simplifier le système.

° Dans le domaine de la fiscalité des particuliers, nous avons élargi l'assiette de l'impôt en éliminant plusieurs mécanismes de report et d'évitement de l'impôt, et instauré un impôt minimum de manière que les particuliers à revenu élevé ne puissent plus échapper à l'impôt.

° Enfin, j'ai entamé cette année l'examen approfondi d'un mécanisme de remplacement possible de la taxe fédérale de vente, qui est désuète, injuste et inefficace.

Nous avons accompli des progrès. Cependant, en considérant les autres améliorations que nous voulions apporter, ainsi que les importants changements effectués récemment aux États-Unis, nous avons jugé qu'il convient d'envisager la réforme fiscale dans une optique plus large au Canada. Cette optique consiste à considérer la fiscalité dans son ensemble. Elle cherche à établir un meilleur équilibre entre l'impôt des particuliers, l'impôt des sociétés et la fiscalité indirecte. Enfin, elle vise à instaurer des changements complémentaires de manière coordonnée.

Mon annonce du 18 juillet indiquait cette nouvelle approche.

Une réforme globale de la fiscalité offre au Canada une chance d'apporter des changements qui répondront aux réalités d'aujourd'hui et nous mettront en mesure de relever les défis des décennies à venir.

trop pesante, des dispositions insuffisantes et à courte vue en matière de formation et de perfectionnement professionnels, ainsi que des effets désincitatifs sur l'investissement. Simultanément, nous avons cherché des possibilités de stimuler l'esprit d'entreprise et de favoriser la participation complète des jeunes et des femmes à la vie économique du Canada. Nous continuerons de poursuivre ces objectifs importants.

Dans mon dernier budget, j'ai amorcé un réexamen de nos grands programmes de transferts sociaux et des dispositions fiscales connexes, tout en exposant les quatre principes dont cet examen devait s'inspirer. À mesure que nous procéderons à ce réexamen, je chercherai à élaborer des mesures compatibles avec les orientations d'une réforme fiscale complète.

Dans ces domaines comme dans d'autres, nous comptons sur la collaboration des Canadiens pour nous aider à cerner les problèmes et à trouver des solutions. Nous accueillirons également volontiers les suggestions sur la manière dont nous pourrions réaffecter les ressources en faveur de secteurs plus prioritaires afin de continuer à relever les défis de la croissance économique, du développement et de la justice sociale, tout en tenant compte du sens des responsabilités financières.

Le troisième sujet figurant à notre programme de consultation est la promotion du commerce et l'expansion des marchés extérieurs.

Il est absolument impératif pour la nation d'assurer la place du Canada dans le concert des grands pays commerçants. Notre bien-être économique provient en grande partie de notre capacité concurrentielle. Si nous voulons maintenir et améliorer ce bien-être, nous nous devons d'être supérieurs à la concurrence mondiale. Nous devons également élargir notre accès aux débouchés traditionnels, obtenir de nouveaux marchés et améliorer de manière générale notre compétitivité dans le monde. Je compte obtenir les opinions du milieu des affaires et du monde du travail sur les facteurs influant sur notre capacité concurrentielle.

Le quatrième sujet de consultation et une question que je veux traiter de manière assez détaillée, est la réforme fiscale.

Nous avons jeté les fondations de la croissance en nous attaquant aux problèmes structurels fondamentaux et persistants qui ont causé le chômage élevé et les taux d'intérêt élevés dont nous avons hérité en arrivant au pouvoir.

La poursuite du progrès dépend du maintien des efforts que nous déployons pour nous appuyer sur les fondations solides que nous avons maintenant mises en place. Tel est notre plan. Notre programme de consultation reflète cette continuité et cette cohérence absolument fondamentales. Je voudrais profiter de l'occasion qui m'est donnée aujourd'hui pour informer brièvement les députés de notre programme de consultation. Je traiterai ensuite de façon plus détaillée de l'un des principaux points de notre programme, la réforme fiscale.

Le premier sujet à l'ordre du jour est la responsabilité financière.

Une gestion saine et responsable des finances de la nation reste indispensable si l'on veut que les Canadiens tirent tout le profit possible d'une économie plus productive et plus prospère. Le redressement des finances de la nation et le maintien de la vigueur économique sont en fait synonymes. Cet avenir économique marqué au coin de la sécurité et du dynamisme ne sera pas nôtre si nous n'utilisons de la manière la plus efficiente des ressources limitées. Comme les députés le savent bien, nous sommes résolus à mettre en oeuvre un plan financier qui permettra de réduire le déficit chaque année jusqu'à la fin de la décennie. Je solliciterai l'avis des Canadiens sur les mesures à envisager pour parvenir à ce but.

Le deuxième sujet de notre programme de consultation est l'amélioration du climat de croissance économique et de création d'emplois.

Notre objectif est d'encourager et de faciliter une amélioration constante de la compétitivité de notre économie et du secteur privé. Dès le départ, notre programme de renouveau a tenu compte de l'importance cruciale d'un secteur privé dynamique. Les politiques appliquées par le passé ont trop souvent fait obstacle à l'initiative du secteur privé et entravé les possibilités de développement économique. Ce gouvernement a donné au secteur privé un vote de confiance non équivoque. Nous avons entrepris de définir et d'éliminer les obstacles à l'initiative privée, par exemple une réglementation gouvernementale

Je suis heureux de pouvoir m'adresser à la Chambre aujourd'hui.

Mon collègue, le ministre d'État aux Finances, et moi-même entamerons sous peu une nouvelle série de consultations prébudgétaires. Je ne saurais trop insister sur l'importance que j'accorde à ces rencontres. Les avis des porte-parole du milieu des affaires, du monde du travail et des groupes de consommateurs, du secteur social et du secteur bénévole sont inestimables pour un ministre des Finances. Ils apportent une contribution indispensable au processus décisionnel. En fait, les consultations prébudgétaires sont devenues l'un des instruments les plus utiles de progrès économique et social en permettant une meilleure communication entre le gouvernement et les Canadiens, une meilleure compréhension des problèmes auxquels le pays est confronté et -- ce qui est le but ultime du processus -- une meilleure solution de ces problèmes.

La série de consultations à venir sera axée sur les principaux éléments de la stratégie économique du gouvernement. Cette stratégie poursuit un objectif primordial: le renouveau et la croissance soutenue de l'économie ainsi que la création d'emplois pour les Canadiens.

Nous enregistrons des succès, les indicateurs économiques en témoignent. Le plus important, cependant, est que nous avons accompli des progrès appréciables dans l'établissement des fondations d'une économie plus productive et plus dynamique, capable de soutenir la croissance. C'est là une réalisation d'une importance vitale. La croissance économique est absolument nécessaire à l'élévation du niveau de vie et à l'amélioration de la qualité de vie à laquelle tous les Canadiens aspirent. C'est la croissance qui offre des possibilités nouvelles aux Canadiens, et c'est elle qui apporte les ressources requises pour promouvoir les objectifs sociaux et culturels de la collectivité qui distinguent notre nation.

VÉRIFIER CONTRE DÉBIT

Consultations prébudgétaires
sur la réforme fiscale

Notes pour une allocution de
l'honorable Michael Wilson
Ministre des Finances
à la Chambre des communes
le 23 octobre 1986

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LE MINISTRE LANCE LA CONSULTATION PRÉBUDGÉTAIRE ET DÉPOSE LES PRINCIPES DIRECTEURS D'UNE RÉFORME FISCALE GLOBALE

Le ministre des Finances, l'honorable Michael Wilson, a exposé aujourd'hui les principaux points du programme de consultation qui précédera son prochain budget. Les grandes lignes de la consultation sont la responsabilité financière, la promotion du commerce extérieur, l'amélioration du climat de croissance économique soutenue et la réforme fiscale.

M. Wilson a également déposé à la Chambre des communes les principes directeurs de la réforme fiscale.

Dans son exposé à la Chambre, le ministre a déclaré qu'à l'occasion de ces consultations, le Ministre d'État aux Finances, l'honorable Thomas Hockin, et lui-même, solliciteront les avis du public sur les grandes orientations de la réforme fiscale. Les députés participeront au processus d'examen. Le ministre mènera également des consultations approfondies auprès des provinces.

M. Wilson a déclaré que, une fois ce processus terminé, l'étape suivante consistera à publier des axes précis de changement lors du prochain budget.

Selon lui, une réforme globale du régime fiscal représente à la fois un défi et une occasion unique, ajoutant:

«En réduisant le nombre des concessions fiscales qui ne bénéficient qu'à un petit nombre de contribuables, en s'assurant que les sociétés qui réalisent des bénéfices paient leur juste part des impôts et en accordant plus d'importance à la fiscalité directe des sociétés et à la taxe de vente, nous serons en mesure de réduire les taux d'imposition des particuliers.

«Cela signifie une augmentation de la paye nette des Canadiens. Le résultat global sera un régime fiscal plus simple, plus équitable et plus efficace.»

Le Ministre a fait remarquer qu'en procédant à l'examen en cours des principaux transferts sociaux et des dispositions fiscales connexes, il cherchera à élaborer des mesures qui seront conformes aux orientations de la réforme fiscale globale.

Le document et le discours du ministre exposent les principes directeurs suivants en matière de réforme fiscale:

Équité: Le régime fiscal devrait assurer un juste partage du fardeau fiscal entre les contribuables. Les contribuables placés dans des situations analogues devraient être soumis au même régime fiscal; tous les particuliers à revenu élevé et les sociétés devraient payer leur juste part des impôts; enfin, des produits similaires devraient supporter le même taux de taxe de vente.

Simplicité et facilité d'observation: L'observation fiscale devrait être facilitée grâce à une simplification du régime, qui devrait être plus facile à comprendre.

Équilibre: La réforme fiscale vise à diminuer le rôle trop important que joue l'impôt des particuliers dans l'ensemble des recettes fiscales, en exigeant davantage des sociétés qui réalisent des bénéfices et en élargissant l'assiette de la taxe de vente.

Stabilité: La stabilité et la fiabilité des recettes fiscales sont indispensables à l'établissement des budgets gouvernementaux. Le but de la réforme fiscale n'est pas d'accroître l'ensemble des recettes publiques, mais d'assurer la réalisation des objectifs que le gouvernement se fixe en matière de recettes.

Compétitivité internationale: Le régime fiscal devrait renforcer la compétitivité internationale des Canadiens.

Croissance économique: Le régime fiscal devrait faciliter la croissance grâce à des taux d'impôt plus bas et une assiette fiscale plus large. Les décisions des entreprises devraient être motivées par les affaires plutôt que par le fisc.

Priorité au Canada: Le régime fiscal devrait contribuer à satisfaire les besoins économiques et sociaux de la nation, y compris les besoins régionaux, conformément aux priorités et aux valeurs du Canada.

Disposition transitoire: Les changements devraient être mis en oeuvre sous réserve de dispositions transitoires appropriées, afin que les Canadiens n'aient pas de doutes au sujet des règles fiscales.

Consultation: Le gouvernement procédera à de larges consultations avant d'élaborer des propositions définitives de réforme fiscale.

«La réforme fiscale doit se dérouler dans un climat de dialogue sain et constructif», a précisé M. Wilson. «Il m'intéressera vivement d'avoir les vues de tous les Canadiens au cours des consultations prébudgétaires que nous entamons.»

Simplicity and Compliance: Tax compliance should be made easier by making the system simpler and more readily understood.

Balance: Tax reform would redress the too-heavy share of tax revenues raised through the personal income tax, by requiring more of profitable corporations and by broadening the sales tax base.

Stability: Stability and dependability of tax revenues are essential for government budgeting. Raising more total tax revenues is not an objective of tax reform, but it should increase the certainty of achieving the revenue goals that the government sets itself.

International Competitiveness: The tax system should reinforce the ability of Canadians to compete internationally.

Economic Growth: The tax system should encourage growth through lower tax rates on a broader tax base. Business opportunities, rather than tax planning, should be the driving force behind business decisions.

Canadian Priorities: The tax system should help meet national social and economic needs, including regional needs, in keeping with Canadian priorities and values.

Transitional Implementation: Changes should be implemented with appropriate transitional provisions, to avoid leaving Canadians in doubt about tax rules.

Consultation: The government will consult broadly before making its final legislative proposals for tax reform.

"Tax reform needs to proceed within a healthy and constructive atmosphere of dialogue," Mr. Wilson said. "I will be keenly interested in receiving the views of all Canadians in the course of the coming pre-budget consultations."

Release

Communiqué

Immediate release

Ottawa, October 23, 1986
86-178

MINISTER LAUNCHES PRE-BUDGET CONSULTATIONS
AND TABLES GUIDELINES ON COMPREHENSIVE TAX REFORM

The Honourable Michael Wilson, Minister of Finance, today outlined the main items on the consultation agenda leading up to the next budget. The main subjects for consultation are fiscal responsibility, trade promotion, improving the climate for sustained economic growth and tax reform.

Mr. Wilson also tabled in the House of Commons guidelines for tax reform.

In his statement to the House, the Minister said that in these consultations he and the Honourable Thomas Hockin, Minister of State for Finance, will be seeking the public's views on the broad directions of tax reform. Members of Parliament will be involved in the review process. The Minister will also be consulting extensively with the provinces.

Mr. Wilson said that, following that process, the next step will be the issuance of specific directions for change at the time of the next budget.

He said comprehensive tax reform presents a major opportunity and challenge, and added:

"By reducing the number of tax breaks that benefit only a few, by ensuring that profitable corporations pay their fair share, and by relying more on corporate and sales tax revenues, we will be able to cut personal income tax rates.

"That means increased take-home pay for Canadians. And the overall result will be a simpler, fairer and more efficient tax system."

The Minister noted that in proceeding with the ongoing review of major social transfer payments and related tax provisions, he will be seeking to develop measures that are consistent with the directions of comprehensive tax reform.

The discussion paper and the Minister's speech set out the following guidelines for tax reform:

Fairness: The tax system should ensure fair sharing of the tax burden among taxpayers. People in similar circumstances should receive the same tax treatment; all high-income individuals and corporations should pay their fair share of tax; and similar products should bear the same rate of sales tax.

Release

Communiqué

Immediate release

Ottawa, October 27, 1986

86-182

DRAFT CHANGES TO TAX RULES ON INCOME ATTRIBUTION PUBLISHED

The Honourable Michael Wilson, Minister of Finance, today released draft amendments designed to simplify and strengthen the income attribution rules in the Income Tax Act.

Changes to the attribution rules, which are intended to prevent a taxpayer from splitting his or her income among family members to reduce the total amount of tax payable, were announced in the May 23, 1985 budget.

The Minister said that extensive consultations on the new rules have shown the need for some modifications, in particular to section 74.4 which was intended to deal with situations where income splitting is attempted through transfers to corporations rather than directly to individual family members.

The main changes proposed in the draft amendments are as follows:

- The corporate attribution rules in section 74.4 will be repealed effective for transactions after November 21, 1985 and replaced with a general anti-avoidance rule, effective after October 26, 1986.
- The attribution rules for minors will be limited to non-arm's-length minors, including nephews and nieces.
- A number of technical changes will be made to the existing rules to correct anomalies.

The new section 74.4 will require that, in cases where a taxpayer makes a loan or transfer to a corporation, the purpose of the transaction be considered in determining if the attribution rules are to apply. Where the requisite income-splitting purpose is present, the new section will require an amount of interest to be included in the taxpayer's income based on either the amount of the loan outstanding or, in the case of a transfer, the outstanding balance of the purchase price, without reference to any share consideration received in respect of the transfer.

The Minister indicated that he intends to proceed with these draft amendments as part of the bill implementing the tax changes proposed in the February 26, 1986 budget.

For further information, please contact:

Tim Wach
Tax Policy and Legislation Branch
(613) 992-4385

DRAFT LEGISLATION: ATTRIBUTION RULES

1.(1) Subsection 74.1(2) of the said Act is repealed and the following substituted therefor:

Transfers and loans to minors

"(2) Where an individual has transferred or loaned property, either directly or indirectly, by means of a trust or by any other means whatever, to or for the benefit of a person who was under 18 years of age and who

- (a) does not deal with the individual at arm's length,
or
- (b) is the niece or nephew of the individual,

any income or loss, as the case may be, of that person for a taxation year from the property or from property substituted therefor, that relates to the period in the year throughout which the individual is resident in Canada, shall be deemed to be income or a loss, as the case may be, of the individual and not of that person unless that person has, before the end of the year, attained the age of 18 years."

(2) Subsection (1) is applicable with respect to transfers of property made after May 22, 1985 and with respect to loans that are outstanding on or after May 22, 1985, except that in the case of a loan outstanding on May 22, 1985

- (a) it is not applicable if the loan is repaid before 1988; and
- (b) if the loan is not repaid before 1988, it does not apply to any income or loss, as the case may be, relating to any period ending before 1988.

2.(1) Subsection 74.3(2) of the said Act is repealed.

(2) Subsection (1) is applicable with respect to transfers of property made after May 22, 1985 and with respect to loans that are outstanding on or after May 22, 1985.

3.(1) Section 74.4 of the said Act is repealed.

(2) The said Act is further amended by adding thereto, immediately after section 74.3 thereof, the following section

Definition of "excluded consideration"

"74.4(1) In this section, "excluded consideration", at any time, means consideration received by an individual that is

- (a) indebtedness,
- (b) a share of the capital stock of a corporation, or
- (c) a right to receive indebtedness or a share of the capital stock of a corporation.

Transfers and loans to corp.

(2) Where an individual has transferred or loaned property either directly or indirectly by means of a trust or by any other means whatever to a corporation and one of the main purposes of the transfer or loan may reasonably be considered to be to reduce the income of the individual and to benefit either directly or indirectly by means of a trust or by any other means whatever a person who is a designated person in respect of the individual, in computing the income of the individual for any taxation year that includes a period after the loan or transfer throughout which

- (a) the person is a designated person in respect of the individual and would have been a specified shareholder of the corporation if the definition "specified shareholder" in subsection 248(1) were read without reference to paragraphs (a) and (d) thereof,
- (b) the individual was resident in Canada, and
- (c) the corporation was not a small business corporation,

the individual shall be deemed to have received as interest in the year the amount, if any, by which

- (d) the amount that would be interest on the outstanding amount of the loan or transferred property for such periods in the year if the interest were computed thereon at the prescribed rate of interest for such periods,

exceeds the aggregate of

- (e) any interest received in the year by the individual in respect of the transfer or loan (other than amounts deemed by this subsection to be interest), and
- (f) $\frac{4}{3}$ of all taxable dividends received (other than dividends deemed by section 84 to have been received) by the individual in the year on shares that were

received from the corporation as consideration for the transfer or as repayment for the loan that were excluded consideration at the time the dividends were received or on shares substituted therefor that were excluded consideration at that time.

Outstanding amount

(3) For the purposes of subsection (2), the outstanding amount of a transferred property or loan at a particular time is

(a) in the case of a transfer of property to a corporation, the amount, if any, by which the fair market value of the property at the time of the transfer exceeds the aggregate of

(i) the fair market value, at the time of the transfer, of the consideration (other than consideration that is excluded consideration at the particular time) received by the transferor for the property, and

(ii) the fair market value, at the time of receipt, of any consideration (other than consideration that is excluded consideration at the particular time) received by the transferor at or before the particular time from the corporation or from a person with whom the transferor deals at arms's length, in exchange for excluded consideration previously received by the transferor as consideration for the property or for excluded consideration substituted for such consideration,

(b) in the case of a loan of money or property to a corporation, the amount if any, by which

(i) the principal amount of the loan of money at the time the loan was made, or

(ii) the fair market value of the property loaned at the time the loan was made,

as the case may be, exceeds the fair market value, at the time the repayment is received by the lender, of any repayment of the loan (other than a repayment that is excluded consideration at the particular time)."

(3) Subsection (1) is applicable with respect to loans and transfers of property made after November 21, 1985.

(4) Subsection (2) is applicable with respect to loans and transfers of property made after October 26, 1986.

4.(1) Paragraphs 74.5(3)(a) and (b) of the said Act are repealed and the following substituted therefor:

"(a) subsection 74.1(1) does not apply with respect to any income or loss from the property, or property substituted therefor, that relates to the period throughout which the individual is living separate and apart from that person by reason of a breakdown of their marriage; and

(b) section 74.2 does not apply with respect to a disposition of the property, or property substituted therefor, during the period throughout which the individual is living separate and apart from that person by reason of a breakdown of their marriage, if the individual files with his return of income under this Part for the taxation year during which the individual commenced to so live separate and apart from that person an election completed jointly with that person not to have that section apply."

(2) Subsections 74.5(4) to (8) of the said Act are repealed and the following substituted therefor:

Idem

(4) No amount shall be included in computing the income of an individual under subsection 74.4(2) in respect of a designated person in respect of the individual who is the spouse of the individual for any period throughout which the individual is living separate and apart from the designated person by reason of a breakdown of their marriage.

Definition of "designated person"

(5) For the purposes of sections 74.3 and 74.4 and this section, "designated person" in respect of an individual, means a person

(a) who is the spouse of the individual, or

(b) who is under 18 years of age and who

(i) does not deal with the individual at arm's length, or

(ii) is the niece or nephew of the individual."

Back-to-back loans and transfers

(6) Where an individual has loaned or transferred property

(a) to another person and that property, or property substituted therefor, is loaned or transferred by any

person (in this subsection referred to as a "third party") directly or indirectly to or for the benefit of a specified person with respect to the individual, or

(b) to another person on condition that property be loaned or transferred by any person (in this subsection referred to as a "third party") directly or indirectly to or for the benefit of a specified person with respect to the individual,

the following rules apply:

(c) for the purposes of sections 74.1, 74.2, 74.3 and 74.4, the property loaned or transferred by the third party shall be deemed to have been loaned or transferred, as the case may be, by the individual to or for the benefit of the specified person; and

(d) for the purposes of subsection (1), the consideration received by the third party for the transfer of the property shall be deemed to have been received by the individual.

Guarantees

(7) Where an individual is obligated, either absolutely or contingently, to effect any undertaking including any guarantee, covenant or agreement given to ensure the repayment, in whole or in part, of a loan made by any person (in this subsection referred to as the "third party") directly or indirectly to or for the benefit of a specified person with respect to the individual or the payment, in whole or in part, of any interest payable in respect of the loan, the following rules apply:

(a) for the purposes of sections 74.1, 74.2, 74.3 and 74.4, the property loaned by the third party shall be deemed to have been loaned by the individual to or for the benefit of the specified person; and

(b) for the purposes of paragraphs (2)(b) and (c), the amount of interest that is paid in respect of the loan shall be deemed not to include any amount paid by the individual to the third party as interest on the loan.

Definition of "specified person"

(8) For the purposes of subsections (6) and (7), "specified person", with respect to an individual, means

(a) a designated person in respect of the individual,
or

(b) a corporation, other than a small business corporation, of which a designated person in respect of the individual would have been a specified shareholder of the corporation if the definition "specified shareholder" in subsection 248(1) were read without reference to paragraphs (a) and (d) thereof.

(3) Subsections (1) and (2) are applicable with respect to transfers of property made after May 22, 1985 and loans outstanding on or after May 22, 1985.

Department of Finance
Canada

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Ministère des Finances
Canada

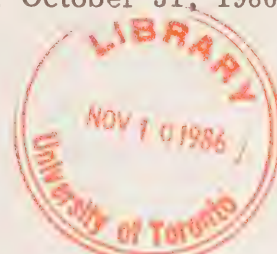
Release

Communiqué

Immediate release

Ottawa, October 31, 1986

86-184



INCOME TAX AMENDMENTS REINTRODUCED

The Honourable Thomas Hockin, Minister of State for Finance, today tabled in the House of Commons proposed income tax legislation in the form of a comprehensive Notice of Ways and Means Motion.

The Motion reintroduces the income tax amendments tabled on June 11, 1986 prior to the prorogation of the last session of Parliament, with adjustments that reflect the useful comments received from taxpayers and their professional advisers since that time. To assist the public in reviewing this material, the attached annex indicates the items that have been modified from the June 11 1986 Notice of Ways and Means Motion.

The Motion contains the details of the amendments to the Income Tax Act announced in the February 26, 1986 budget, the minimum tax and a number of other previously announced income tax measures including the exploration tax credit, the revised definition of Canadian exploration expense, the rules relating to carve-out arrangements, and the rules relating to the flow-out of investment tax credits through inter-vivos trusts.

The Minister also released technical notes explaining each of the proposed amendments which will be introduced in Bill format at an early date. Any questions or comments relating to the proposed amendments should be directed to:

Department of Finance
Tax Policy - Legislation Division
140 O'Connor Street
Ottawa, Ontario
K1A 0G5

ANNEX

The following list has been assembled to assist in the analysis of the October 31, 1985 comprehensive Notice of Ways and Means Motion and identifies significant changes made to the legislation since the June 11, 1986 motion was released.

<u>Income Tax Act Reference</u>	<u>Clause Number</u>	<u>Subject</u>
8(1)(0)	2(2)	Employment income - deduction in respect of deferred benefits
12(1)(n.2)	3(1)	Income inclusion where excess deduction in respect of deferred benefits
12(11)(a)	3(3)	Salary deferral arrangements excluded from "investment contract" definition
66(12.6) to (12.73) and 66(17)	11(4) and (9)	Resource flow-through shares
74.1(2), 74.3(2), 74.4 and 74.5	17 to 20	Attribution rules
78(4)	21(1)	Unpaid remuneration
96(2.1) to (2.7)	26	Limited partnerships - technical modifications, transitional and anti-avoidance rules
110(1)(c)(iv), 110(1)(e), 110(1.3)	32	Medical expense deduction
110.7	34	Northern Allowances
127(7)	49(1)	Investment tax credits of a trust
127(9)	49(6)	Cape Breton tax credit - approved project property
127.5 to 127.55	51	Minimum tax
146(8.2)	57(4)	RRSPs
149.1	59	Charitable foundations

152(6)(g) and (h)	60(2)	Reassessments
161(7)(a)(vi.1)	64	Interest on unpaid taxes
164(5)(h.2) and (5.1)(h.2)	66	Interest on refunds
204.2(1)(d)	72	Overcontribution to deferred income plans
206(1)	73(2)	Foreign property of a deferred income plan
209	74	Resource "carve-outs"
221(2)	76(2)	Power to make Regulations
248(1)	79(2)	Definition of "Small Business Corporation"
248(1)	79(3)	Definition of "Salary Deferral Arrangement"
248(11)	79(4)	Compound interest

Release

Communiqué

CA1

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-C55

86-190

For immediate release

Publication immédiate

Ottawa, November 12, 1986

Ottawa, le 12 novembre 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for June 1986 and the first three months of the 1986-87 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de juin 1986 et les trois premiers mois de l'année financière 1986-87.

For June 1986, budgetary revenues were \$6,572 million, budgetary expenditures were \$9,371 million and there was a deficit of \$2,799 million. For June 1985, revenues were \$5,543 million, expenditures were \$9,388 million and there was a deficit of \$3,845 million.

Les chiffres budgétaires de juin 1986 montrent des recettes de \$6,572 millions, des dépenses de \$9,371 millions et un déficit de \$2,799 millions. En juin 1985, les recettes s'établissaient à \$5,543 millions, les dépenses à \$9,388 millions et le déficit à \$3,845 millions.

For the first three months of the 1986-87 fiscal year, revenues were \$18,503 million, expenditures were \$26,758 million and there was a deficit of \$8,255 million. For the same period last year, revenues were \$15,385 million, expenditures were \$25,369 million and there was a deficit of \$9,984 million.

Les trois premiers mois de l'année financière 1986-87 ont produit des recettes de \$18,503 millions contre des dépenses de \$26,758 millions d'où un déficit de \$8,255 millions. La période correspondante de l'an dernier avait donné des recettes de \$15,385 millions, des dépenses de \$25,369 millions et un déficit de \$9,984 millions.

For further information:

Pour de plus amples renseignements:

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

Release

Communiqué

Release at 2000 EST

CAI
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Ottawa, November 24, 1986

86-192

Notes for an address
by the Honourable Michael Wilson
Minister of Finance
To the Canadian Tax Foundation
Toronto
November 24, 1986

CHECK AGAINST DELIVERY

Introduction

I welcome this opportunity to address the Canadian Tax Foundation. Over the years, no organization has played a greater role in improving understanding of Canada's tax system.

I want to encourage you as individuals and as members of the foundation to take an active part in the national effort to reform the tax system. I shall need your advice and your expertise. I know I can count on it.

I want to be crystal clear about what our objectives for tax reform are -- and what they are not. I invite you to participate in the effort to have these issues fully and thoughtfully discussed in the months ahead.

Toward comprehensive tax reform

Two years ago, when I last spoke to this audience, I had only recently tabled the Agenda for Economic Renewal. In this document, we made clear that the underlying thrust of our broad policies is to free up the dynamism of the private sector as the prime source of economic growth and job creation in Canada. As part of this effort, we undertook to reduce the degree of government intervention in the decisions of individuals and businesses in the marketplace.

I shared with you some of my concerns about the tax system in this regard. I identified serious impediments to sound economic decision-making in the tax system and emphasized the need to make it better serve all Canadians. I indicated the directions I felt we should be moving in, consistent with the broad objectives of economic renewal.

Since that time, we have acted to improve the fairness of the personal tax system by eliminating a number of techniques used by some Canadians to avoid paying tax.

We began a first phase of corporate tax reform by broadening the tax base, reducing tax rates and eliminating some investment-distorting incentives.

We began to examine possible replacements for the inadequate and unfair federal sales tax.

And we undertook a review of selected social/tax transfer programs.

As work progressed in all these areas, one thing became apparent: to do justice to the goal of reform, we would have to undertake a major restructuring of the personal income tax as well.

That is what we decided. And that is why I announced last July our intention to proceed with comprehensive tax reform.

At the same time, tax developments in the international environment emerged as a key factor. The United States acted with surprising speed to make major comprehensive changes. Some of Canada's other major trading partners, including Britain, France, West Germany and Japan, have also embarked on reform of their tax systems. In an increasingly competitive global economy, these developments have imposed a tighter timetable on the Canadian approach to reform.

Guidelines for comprehensive tax reform

In October I made public a set of guidelines for tax reform. These were designed to stimulate discussion and provide a basis for consultations. The process of exploring tax reform options is now well under way with the help of information and advice from interested Canadians. Following the completion of this phase of the process, the government will bring forward specific proposals for tax reform at the time of the next budget.

Since the release of the guidelines, much has been written and said. Not all commentary has been as accurate as it might have been. Indeed, some of it has reflected a serious misunderstanding of the tax reform objectives on which our guidelines are based. In several cases, it appears that judgments have been made about the government's objectives without benefit of reading the guidelines.

I want to emphasize that to understand the true direction of tax reform, it is important to read our guidelines for tax reform with great care.

The guidelines express the government's commitment to a fairer and simpler tax system that more effectively encourages productive economic activity.

They define where we intend to go with tax reform.

The objectives

I want to focus now on our key objectives for tax reform in Canada. Let me emphasize that I am using the word "objectives" in its most far-reaching sense. What I am really talking about is a series of outcomes -- of measurable results -- that will be essential for effective reform of the tax system.

Point one: The central objective is to get tax rates down. The best incentive for investment, saving and job-creation is to allow all Canadians to keep more of what they earn -- to spend or save as they see fit.

Point two: The most fiscally responsible and fairest way to get tax rates down without increasing the deficit is to broaden the base on which the reduced rates will be applied.

Point three: The way to broaden the tax base is to eliminate, reduce or modify a wide range of specific exemptions, deductions and other tax preferences that have steadily multiplied over the years.

Point four: Comprehensive tax reform means applying the first three points to every part of the tax system -- personal, corporate and sales taxes -- and doing it in a co-ordinated fashion that improves the stability and balance of the entire system. It means reducing the number of specific, often overlapping incentives in favour of the best incentive of all -- lower rates.

There should be no mystery about what this means for taxpayers. Those who have been making extensive use of tax preferences will pay more tax. Those who have been making little use of tax preferences will pay less tax. That is the fundamental reality of our approach to tax reform. It also means that as we eliminate tax preferences, we reduce the opportunities for abuse of the tax system. And as we get tax rates down, we reduce the incentive to abuse the system.

The need for lower tax rates

It is important to understand the case for lower tax rates in every part of the tax system.

At the outset, let's remind ourselves about the basic purpose of the tax system. It is to raise the revenues needed to finance a wide range of national services and programs such as old age assistance, health care, post-secondary education, regional development and equalization payments to provinces. These services and programs help Canadians in every part of the country; they help to define and protect the basic values of our nation.

It is the growth of the national economy that ultimately determines our national ability to pay taxes to finance those essential services.

One factor, above all others, influences the incentive for Canadians to work harder, earn more and invest more. That factor is the rate of tax that is applied to each additional dollar of earnings.

Here are the problems with high tax rates.

The higher the tax rate, the greater the incentive for taxpayers to devote more time, money and effort to avoiding taxes, legally or otherwise. The public knows who pays for the success of these efforts -- the average Canadian taxpayer.

The higher the rates of tax on each additional dollar of income, the less the incentive to earn more, save more and invest more in Canada. As Canadians have faced higher and higher personal income tax rates over the years, they have also faced an increasing deterrent to individual initiative and economic growth. And Canadians know who pays for the loss of productive growth -- all of us, but none more than those in need of jobs and better opportunities.

As a result of high tax rates, a multitude of tax preferences has been put in place to serve a wide range of economic and other purposes over the years. The proliferation of specific incentives has strengthened the perception that many higher-income taxpayers do not pay their fair share of tax. This perception of unfairness has undermined public respect for the integrity of the system in recent years. And that is a particular problem in a system that relies, as ours does, on the principle of self-assessment and voluntary compliance. Restoring faith in the system is central to tax reform.

This problem is not just a matter of perception. You are tax practitioners. You know and I know that a significant number of individuals and corporations have been able to pay an unreasonably small share of the tax burden. And they have done so by making use of specific preferences to an extent no one envisioned when the trend to special incentives began.

As a result, over the last two decades general tax rates have remained high to make up for revenues lost to specific preferences. Once again, it's the average Canadian taxpayer who has picked up the tab.

Furthermore, as new incentives have been heaped up, layer upon layer, their individual and collective value has been increasingly neutralized and in many cases has become impossible to estimate. Despite this, each new special-purpose incentive has the effect of increasing the demand for similar concessions from other interests. The tax system has been turned into a

quagmire of complexity. As special incentives have multiplied, their value to the economy has been reduced. The burden of tax compliance has become a major cost to individual taxpayers and to the economy as a whole.

The result of all this is an increasingly incomprehensible personal and corporate tax system. It is a system in which taxpayers in similar circumstances can be treated dramatically differently; a system in which the appearance of high tax rates disguises the reality of some high-income taxpayers paying very low amounts of tax; a system in which relatively low-income individuals can pay higher effective tax rates than some with very high incomes. Worst of all, it is a system that encourages more and more of the same.

I want to break the spiral of higher tax rates leading to more tax preferences leading to more tax-motivated transactions leading to even higher tax rates to recoup the growing loss of revenues. The spiral must be broken and it will be.

I want to replace the special tax breaks with the best incentive of all -- lower rates. I want a fairer tax system that provides strong incentives for all taxpayers.

I have taken some time to spell out these basic points because I want as many Canadians as possible to understand why this government is committed to reducing tax rates right across the tax system by removing preferences and broadening the tax base.

Lower tax rates mean improved tax fairness

Through base-broadening, tax rates will be reduced for Canadians in all income groups and the rate structure will be streamlined. But contrary to what some have argued, lower tax rates on a broader base will bring a significant improvement in fairness right across the system:

- The progressive impact of the personal income tax system will be reinforced. The average Canadian will no longer have to pay for those not carrying their fair share of the burden.

- The corporate tax system will be fairer and more efficient. The average Canadian will no longer have to pick up the tab for profitable companies that don't pay their fair share of tax.
- The federal sales tax will apply more evenly and fairly across the economy instead of being concentrated in a few sectors.

One further note about fairness: The more complicated the tax system, the more difficult it is to understand -- and the fewer the taxpayers who can make the best possible use of its provisions. This is not fair to the average taxpayer. A simpler, more understandable tax system will lead to greater fairness. A simpler, fairer tax system will be more effective in serving the interests of all Canadians.

Let's look more closely at what our basic objectives mean for taxpayers in each of the major elements of the tax system.

Reform of the personal income tax

First, personal income tax. Let's imagine four individuals representing a cross-section of taxpayers in the current system. Broadly speaking, one of these taxpayers is a major beneficiary of special incentives through the extensive use of tax preferences. The other three gain relatively little from tax preferences. Their share of the tax burden is more than it should be. These three individuals pay more income tax to make up for the revenues lost through preferences used by the other one. In terms of encouraging productive behaviour, the current system helps only one taxpayer at the expense of three others.

The picture after tax reform will be quite different. The individual who has extensively used tax preferences will pay more tax. The three others will pay less personal income tax. The system will be fairer. All four will have the benefit of the best incentive of all -- lower tax rates. The country as a whole will benefit from the added general stimulus to productive economic activity.

The corporate tax system

A similar pattern exists in the corporate tax system. Tax rates are too high. The fundamental incentives for the majority of corporations are lower than they should be because a minority benefit quite extensively from tax preferences.

The direction we intend to follow on corporate tax reform was well established in the paper introduced with the May 1985 budget. It is fully consistent with the broad goals of comprehensive tax reform. A good start on base-broadening has already been made. More needs to be done to ensure that corporate tax rates can be further reduced to levels that are fully competitive with those prevailing in other countries.

Through corporate tax reform, tax considerations will become much less of a factor in business decisions. This will improve not only efficiency but also fairness within the system. Profitable corporations will no longer be able to avoid a reasonable share of the tax burden.

The urgency of reform has been increased by the fact that huge tax preferences not only exist but are also traded among corporations in ways that sharply erode the revenue base. I am concerned about this trading of tax preferences. It has led to an unacceptable degree of instability in corporate tax revenues. It has been an important source of further disrespect for the tax system among taxpayers.

The federal sales tax system

I want to turn now to reform of the federal sales tax -- a subject on which there has been a great deal of misunderstanding. It is especially important for Canadians to understand why the federal sales tax must be a part of any comprehensive tax reform.

You will recall that in my last budget I announced a review of options for replacement of the outdated and inefficient federal sales tax system, usually known as the manufacturers' sales tax. I also announced that in addition to

replacing the revenues raised under the current system, a new federal sales tax would be designed to finance adequate offsets for low-income Canadians and removal of the personal and corporate surtaxes.

Let me briefly review the need for major reform in the structure of the federal sales tax, consistent with the basic objectives of comprehensive tax reform that I have already spelled out.

The sales tax base has been progressively eroded over the years. Only about one-third of all the goods and services Canadians purchase are subject to federal sales tax. A relatively small proportion of goods carry a disproportionately heavy load of sales tax while a wide range of services and goods carry almost none. That is certainly not fair.

The distortions created by the inequities of such a system are bad for the economy and particularly bad for the nation's competitive position. Under the present federal sales tax, many imports are taxed less than comparable domestic goods, while exports are hampered by sales tax on business inputs. That is not a very intelligent policy for a nation that depends on exports for one-third of its livelihood.

The sales tax has an erratic effect on prices of various products. Effective tax rates vary dramatically among different classes of domestic products as well as among similar products themselves. This means that products can't compete on an equal footing.

By replacing the current system with a new sales tax with a broader base and lower rates, we can ensure equal treatment for all products and business sectors. And we can strengthen the competitive position of all Canadian exporters. It will be a fairer, more efficient system with improved incentives for productive growth and jobs.

One final note on sales tax reform, but a very important one: Those commentators who have condemned sales tax reform as an initiative that will hurt lower-income Canadians have been missing an important part of the story.

I have already made a commitment and I repeat it today: We will not introduce a broadly-based sales tax without at the same time enhancing the refundable tax credit to offset increases in sales tax for lower-income earners.

Rebalancing the tax system

The rate structure of the personal income tax is the single most important element in the system of fundamental incentives for productive economic activity.

As a result of base-broadening within the personal income tax system, substantial reductions in rates can and will be achieved. But we must be sure to get personal income tax rates not just down, but down far enough to restore dynamic fundamental incentives to the system and make it fully competitive with those of other countries. Substantial broadening of the personal income tax base will get us most of the way to our goal, but not all of the way.

Restoring a better balance among the major elements of the tax system will enable us to achieve that goal. At the same time, it will help address the trend which has seen both corporate and sales taxes providing a declining share of total revenues over the years.

As I have made clear, tax reform is not a justification for increasing the overall burden of taxation on the economy, nor is it an excuse to ignore the serious fiscal challenges facing the country.

If we are to rely less on the personal income tax, we must rely more on other sources. This is an inescapable part of the need to carry out effective tax reform in a balanced, comprehensive and co-ordinated way.

At the same time, as I have made clear, the existence of a tax reform exercise does not preclude other tax action if necessary to meet fiscal management and economic and social policy goals.

The overall outcome

Let me summarize the outcomes that I now foresee from the combined effect of substantial base-broadening and rate reduction.

We will collect less in total from personal income taxes. Most Canadians will have more to spend or save as they see fit.

A substantial majority of Canadians will not only pay less income tax than under the old system, they will also be better off even after the impact of the new federal sales tax is taken into account. Their personal income tax reductions will exceed the additional amount paid in sales taxes as a result of rebalancing the major sources of revenue.

Those taxpayers who have made extensive use of tax preferences will pay more. Some will pay substantially more.

There will be cuts in corporate tax rates. However, as a result of a broadened base, profitable corporations will pay their share. As a further result, I expect we will collect more corporate taxes in aggregate.

Federal sales tax rates will also be reduced. But with base-broadening, revenues will be collected fairly across all business sectors and, as a result, I expect we will collect more in total and the enhanced refundable sales tax credit will protect Canadians with lower incomes.

Tax reform will strengthen fundamental economic incentives for all taxpayers. It will ensure that our tax system becomes more competitive with those of our trading partners so that the job-creating capacity of our economy is maintained and enhanced. At the same time, the overall stability of the tax system will be improved. It will provide a sounder, more predictable revenue base to finance essential services and programs for Canadians.

The challenge

I don't want to suggest that our objectives -- the essential outcomes for effective tax reform -- will be easy to achieve. It is not a matter of doing a little bit of preference-cutting here and a little bit there. On the contrary, we will have to do a lot here and a lot there.

I do not want to give the impression that the government intends to take away all preferences. That is not the case. But I am making clear that every preference in the system will come under very careful study. There will have to be compelling reasons for those that remain in place after the tax reform process.

We will have to eliminate or reduce many tax preferences which were initially put in place for sound economic and social reasons. We may well have to part with preferences that most of us agree are still valuable in their own right. Some tough decisions will have to be made. We intend to make them. And we do so because it will help us meet the broader objectives of tax reform.

We are committed to tax reform. We will not be pushed off course.

I know that interest groups will make pleas for special treatment based on special circumstances. In our consultations to date, I have already heard a great deal of special pleading.

But we must all realize that special interests can be served only at the expense of the average taxpayer.

Conclusion

A good start has been made on the challenge of tax reform for Canada. A full process of consultation is well under way, including discussions with the provinces, and this will continue.

The government is committed to implementing tax reform with appropriate transitional rules. These will be essential for stability of long-term planning for businesses and investors. A measured transition will allow taxpayers time to understand the new system and adjust to it.

I believe that Canadians will rise to the challenge of tax reform. To do so we must rise above narrow interests; we must work together for the common good that will be served by a better tax system.

The challenge is great, but the opportunity is greater. Let's make the most of it.

Release

Communiqué

Immediate release

Ottawa, November 27, 1986
86-196

NEW MEASURE TO PREVENT TAX AVOIDANCE ON CORPORATE DISTRIBUTIONS

The Honourable Michael Wilson, Minister of Finance, today announced he will implement a tax measure designed to protect against the avoidance of tax on dividend distributions by public corporations. The measure will take the form of a special tax to be paid by a public corporation on certain open-market purchases of its shares.

"I am concerned about tax avoidance and wish to prevent tax avoidance devices that are offensive and contrary to public policy," Mr. Wilson said. "If left unchecked they could seriously erode the tax base."

As an example of such an arrangement, the Minister referred to the payment by public companies of stock dividends with low paid-up capital shares, with the intention of repurchasing the shares on the open market at their higher fair market value. The effect of such arrangements is to transfer corporate surplus into a shareholder's hands as proceeds of disposition of a share rather than as a taxable dividend.

The proposed tax will apply to the excess of the consideration paid over the paid-up capital of the shares being purchased, and then only in circumstances where the purpose of the arrangement is to permit shareholders to convert dividends to capital gains.

.../2

Such a tax would also apply where a public corporation repurchases its preferred shares at a premium on the open market just before their redemption date, rather than paying a premium on the redemption.

The tax will apply to acquisitions of shares after November 27, 1986, except for shares acquired before 1987 pursuant to a written commitment made before November 28, 1986.

The rate of tax payable by the corporation in respect of the excess consideration paid on shares purchased before 1987 would be 33 1/3 per cent, a rate which equates with a 25-per-cent rate of tax payable on dividend income by individual shareholders in the upper-income ranges. The rate of the special tax on the excess consideration paid will increase to 50 per cent for share purchases after 1986 as a consequence of the proposed change in the dividend tax credit effective next January.

The Minister said he plans to introduce the legislation implementing this special tax as part of the legislation giving effect to income tax measures in his next budget.

The provision imposing the tax would be drafted along the following lines:

"Where, in a taxation year, a corporation resident in Canada or any person or partnership with which it does not deal at arm's length has acquired any share of the capital stock of the corporation and

- (a) subsection 84(2) or (3) is not applicable in respect of the acquisition of the share,
- (b) the consideration paid for the acquisition of the share exceeds the paid-up capital of the share immediately before the acquisition, and

- (c) one of the purposes of the acquisition can reasonably be considered to permit shareholders to realize a distribution of corporate surplus as proceeds of disposition of a share,

the corporation shall, on or before the day on or before which it is required to file its return of income under Part I for its taxation year in which the share was acquired, pay a tax of 50 per cent of the amount of that excess consideration paid."

For further information, please contact:

Wally Conway (613) 992-4852
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Tax Policy and Legislation Branch

Release

Communiqué

Immediate release

Ottawa, November 27, 1986

86-197

CHANGES ANNOUNCED ON TAX TREATMENT OF INTERCORPORATE DIVIDENDS

The Honourable Michael Wilson, Minister of Finance, today announced his intention to introduce legislation to deny the deduction for intercorporate dividends paid on what has become known as collateralized preferred shares.

The Minister expressed concern with transactions that have come to his attention involving the use of preferred shares issued by corporations with accumulated losses and unutilized deductions in order to provide a means of sheltering the income of profitable corporations from tax. Under these arrangements, a profitable corporation will invest in the shares of a corporation with accumulated tax losses and deductions. The loss corporation will typically invest the share proceeds in Treasury bills or other interest-bearing securities. The resulting income, less a "spread" or administrative charge to compensate the loss corporation for the use of its losses, can then be distributed to the profitable corporation as a dividend.

Such intercorporate dividends are generally deductible in the hands of the recipient corporation and thus are tax-free. In addition, to ensure that the profitable corporation will realize its return, such transactions are structured to provide a guarantee for the profitable corporation's share investment and dividend yield. As a result of this guarantee feature, the investment is more in the nature of a debt security than an equity investment, yet the return is in the form of deductible dividends rather than taxable interest.

"The use of the tax system in this manner, at this time when the government has called upon all Canadians to help reduce the deficit, is unacceptable", the Minister said. "Accordingly, I am today announcing measures to deny the intercorporate dividend deduction in respect of transactions of this nature."

Mr. Wilson noted that he has previously introduced provisions, such as the rules relating to limited partnerships and carve-outs, to prevent tax sheltering by way of the transfer of losses and deductions.

"The measures announced today are simply one more step in preventing the inappropriate transfer of unusable tax deductions to outside investors."

The new measure will apply to dividends received after 5:00 p.m. Eastern Standard Time November 27, 1986 except in respect of prescribed shares or certain shares issued before that time.

The Minister also noted that, while these new rules apply specifically to the intercorporate dividend deduction, the government is considering extending these rules to apply to other similar arrangements entered into with the purpose of circumventing these new rules.

Draft legislation to implement this measure and a technical explanation are attached.

For further information, please contact:

D. Sugg
(613)996-0602

Draft Amendments to the Income Tax Act Relating to
Tax Treatment of Intercompany Dividends

1.(1) Section 112 of the Income Tax Act is amended by adding thereto, immediately after subsection (2.3) thereof, the following subsections:

Where no deduction permitted

"(2.4) No deduction may be made under subsection (1) or (2) or subsection 138(6) in computing the taxable income of a particular corporation in respect of a dividend received on a share (in this subsection referred to as the "subject share)", other than an exempt share, of the capital stock of an other corporation where

(a) any person or partnership was obligated, either absolutely or contingently, to effect an undertaking, including any guarantee, covenant or agreement to purchase or repurchase the subject share, under which an investor is entitled, either immediately or in the future, to receive or obtain any amount or benefit for the purpose of reducing the impact, in whole or in part, of any loss that an investor may sustain by virtue of the ownership, holding or disposition of the subject share, and any property is used, in whole or in part, either directly or indirectly in any manner whatever, to secure the undertaking, or

(b) the consideration for which the subject share was issued or any other property received, either directly or indirectly, by an issuer from an investor, or any property substituted therefor, is or includes

(i) an obligation of an investor to make one or more payments that is required to be included, in whole or in part, in computing the income of the issuer, or

(ii) any right to receive one or more payments that is required to be included, in whole or in part, in computing the income of the issuer where that right is held on condition that it or property substituted therefor may revert or pass to an investor or a person or partnership to be determined by an investor,

where that obligation or right was acquired by the issuer as part of a transaction or event or a series of transactions or events which included the issuance or acquisition of the subject share, or a share for which the subject share was substituted.

Application of Subsection (2.4)

(2.5) Subsection (2.4) applies only in respect of a dividend on a share where, having regard to all the circumstances, it may reasonably be considered that the share was issued or acquired as part of a transaction or event or a series of transactions or events that enabled any corporation to earn income from property, or any income substituted therefor, and, as a result, the amount of

part of a transaction or event or a series of transactions or events that enabled any corporation to earn income from property, or any income substituted therefor, and, as a result, the amount of its taxes payable under this Act for a taxation year is less than the amount that its taxes payable under this Act would be for the year if that income were the only source of income of the corporation for the year and all other taxation years.

Definitions

(2.6) For the purposes of this subsection and subsection (2.4),

"exempt share"

"exempt share" means

(a) a prescribed share, or

(b) a share of the capital stock of a corporation issued before 5:00 p.m. Eastern Standard Time, November 27, 1986, other than a share held at that time

(i) by the issuer, or

(ii) by any person or partnership where the issuer may become entitled to receive any amount after that time by way of subscription proceeds or contribution of capital with respect to that share pursuant to an agreement made before that time;

"investor"

"investor" means the particular corporation referred to in subsection (2.4) and a person with whom that corporation does not deal at arm's length and any partnership or trust of which that corporation, or a person with whom that corporation does not deal at arm's length, is a member or beneficiary, but does not include the other corporation referred to in that subsection;

"issuer"

"issuer" means the other corporation referred to in subsection (2.4) and a person with whom that corporation does not deal at arm's length and any partnership or trust of which that corporation, or a person with whom that corporation does not deal at arm's length, is a member or beneficiary, but does not include the particular corporation referred to in that subsection.

Change in agreement or condition

(2.7) For the purposes of the definition "exempt share" in subsection (2.6), where at any time after 5:00 p.m. Eastern Standard Time, November 27, 1986 the terms or conditions of a share

of the capital stock of a corporation or any agreement in respect of the share, has been changed or entered into by the corporation, the share shall be deemed to have been issued at that time.

Loss sustained by investor

(2.8) For the purposes of paragraph (2.4)(a), any loss that an investor may sustain by virtue of the ownership, holding or disposition of the subject share referred to in that paragraph shall be deemed to include any loss with respect to an obligation or share that was issued or acquired as part of a transaction or event or a series of transactions or events which included the issuance or acquisition of the subject share, or a share for which the subject share was substituted."

(2) Subsection (1) is applicable after 5:00 p.m. Eastern Standard Time, November 27, 1986.

A second approach to securing the profitable corporation's share interest is for the profitable corporation to retain control or possession of the share proceeds. New paragraph 112(2.4)(b) will apply in these circumstances. For example, rather than investing the share proceeds in a trust which provides an undertaking to protect the profitable corporation from loss, the loss corporation may simply reloan the funds either to the profitable corporation or to a person who does not deal at arm's length with the profitable corporation. Alternatively, the proceeds of the share issue may be an income interest which may revert to the profitable corporation at its discretion. Thus, where the profitable corporation retains control over the income source which has been transferred to the loss corporation as a means of providing security for the share investment, the intercorporate dividend deduction will be denied if the income source is acquired by the loss corporation in conjunction with the acquisition by the profitable corporation of the shares of the loss corporation.

Under new subsection 112(2.4) the corporation receiving the dividend is referred to as the "particular corporation" and the corporation paying the dividend is referred to as the "other corporation". New subsection 112(2.6) provides expanded definitions of these terms for the purposes of new subsection 112(2.4). The expanded definitions of particular corporation and other corporation are referred to as "investor" and "issuer" respectively. Investor is defined to mean the particular corporation and a person with whom the particular corporation does not deal at arm's length (but not including the other corporation), or a partnership or trust of which either the particular corporation or a person with whom the particular corporation does not deal at arm's length is a member or beneficiary. Similarly the definition of issuer means the other corporation and a person with whom the other corporation does not deal at arm's length (other than the particular corporation) or a partnership or trust of which either the other corporation or a person with whom the other corporation does not deal at arm's length is a member or beneficiary. These expanded definitions are necessary to ensure that the provisions of subsection 112(2.4) are not avoided through the use of other members of a corporate group.

New subsection 112(2.6) also includes a definition of "exempt share" which ensures that new subsection 112(2.4) will not apply to shares issued before 5 p.m. Eastern Standard Time, November 27, 1986 (other than shares held at that time either by the issuer or by any other person or partnership where the issuer may become entitled to receive after that time any amount by way of subscription proceeds or contribution of capital with respect to the share pursuant to an agreement made before that time). New subsection 112(2.7) provides that, for the purposes of the definition of "exempt share", where at any time there is any change in the terms or conditions of a share of the capital stock of a corporation, or an agreement has been entered into with respect to the share by the corporation, the share will be considered to have been issued at that time. As a consequence, the

share would lose its exempt status and would be subject to new subsection 112(2.4) if all the other conditions of that subsection are met. The purpose of this rule is to ensure that the provisions of subsection 112(2.4) cannot be avoided simply by using a previously issued share.

Release

Communiqué

86-200

For immediate release

Ottawa, December 2, 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for July 1986 and the first four months of the 1986-87 fiscal year.

For July 1986, budgetary revenues were \$7,879 million, budgetary expenditures were \$9,163 million and there was a deficit of \$1,284 million. For July 1985, revenues were \$7,153 million, expenditures were \$8,794 million and there was a deficit of \$1,641 million.

For the first four months of the 1986-87 fiscal year, revenues were \$26,382 million, expenditures were \$35,921 million and there was a deficit of \$9,539 million. For the same period last year, revenues were \$22,538 million, expenditures were \$34,163 million and there was a deficit of \$11,625 million.

For further information:

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

Publication immédiate

Ottawa, le 2 décembre 1986

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de juillet 1986 et les quatre premiers mois de l'année financière 1986-87.

Les chiffres budgétaires de juillet 1986 montrent des recettes de \$7,879 millions, des dépenses de \$9,163 millions et un déficit de \$1,284 millions. En juillet 1985, les recettes s'établissaient à \$7,153 millions, les dépenses à \$8,794 millions et le déficit à \$1,641 millions.

Les quatre premiers mois de l'année financière 1986-87 ont produit des recettes de \$26,382 millions contre des dépenses de \$35,921 millions d'où un déficit de \$9,539 millions. La période correspondante de l'an dernier avait donné des recettes de \$22,538 millions, des dépenses de \$34,163 millions et un déficit de \$11,625 millions.

Pour de plus amples renseignements:

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Peter DeVries (613) 992-5977.

Release

Communiqué

86-208

For immediate release

Publication immédiate

Ottawa, December 12, 1986

Ottawa, le 12 décembre 1986

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for August 1986 and the first five months of the 1986-87 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois d'août 1986 et les cinq premiers mois de l'année financière 1986-87.

For August 1986, budgetary revenues were \$6,789 million, budgetary expenditures were \$9,173 million and there was a deficit of \$2,384 million. For August 1985, revenues were \$5,928 million, expenditures were \$8,356 million and there was a deficit of \$2,428 million.

Les chiffres budgétaires d'août 1986 montrent des recettes de \$6,789 millions, des dépenses de \$9,173 millions et un déficit de \$2,384 millions. En août 1985, les recettes s'établissaient à \$5,928 millions, les dépenses à \$8,356 millions et le déficit à \$2,428 millions.

For the first five months of the 1986-87 fiscal year, revenues were \$33,171 million, expenditures were \$45,094 million and there was a deficit of \$11,923 million. For the same period last year, revenues were \$28,466 million, expenditures were \$42,519 million and there was a deficit of \$14,053 million.

Les cinq premiers mois de l'année financière 1986-87 ont produit des recettes de \$33,171 millions contre des dépenses de \$45,094 millions d'où un déficit de \$11,923 millions. La période correspondante de l'an dernier avait donné des recettes de \$28,466 millions, des dépenses de \$42,519 millions et un déficit de \$14,053 millions.

For further information:

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Release

Communiqué

Embargoed until 16:30 EST

Ottawa, December 18, 1986
86-209

POLICY FRAMEWORK FOR CANADA'S FINANCIAL INSTITUTIONS TABLED IN PARLIAMENT

The Honourable Thomas Hockin, Minister of State for Finance, today tabled in Parliament a policy paper setting out a framework for the structure and regulation of banks and other federally regulated financial institutions in Canada.

The paper, *New Directions for Financial Institutions*, is designed to respond to the challenge of rapid change taking place in the financial system. It will serve as the basis for legislation to be introduced in 1987.

Mr. Hockin, noting that the world's financial industry is undergoing rapid change, said the new policies are designed to allow Canada's financial institutions "to seize the opportunities offered by change."

"What we all want," he said, "is a sound financial system that provides Canadians with innovative and competitive services, that broadens the range of choice for Canadian savers and investors, and that fosters safe and well supervised financial institutions that can compete effectively around the world."

The Minister said the new policy framework "will achieve these important objectives with policies which we believe are realistic, balanced and workable."

The framework proposes action in four key areas:

- the integration of financial services, through the common ownership of institutions and the extension of powers;

- a pragmatic ownership policy that checks the growth of commercial-financial links in the economy while maintaining balanced competition within the financial services sector;
- a strong framework for prudential regulation; and
- a modernized and strengthened supervisory system.

Mr. Hockin said the policy proposals "will help our institutions grow and prosper. They will allow our institutions to expand their service to customers. And they will ensure that Canadians can continue to have confidence in one of the finest financial systems in the world."

The main policy proposals include:

- provision for common ownership of regulated financial institutions -- banks, trust and loan companies, life insurance firms and investment dealers -- and a broadening of powers, allowing neighborhood branch offices to offer a wide array of new services, with greater potential for one-stop shopping;
- arresting the growth of linkages between commercial interests and non-bank financial institutions, and requiring significant minority shareholdings in these institutions where commercial links exist;
- a regulatory framework that will strictly control self-dealing in all federally regulated financial institutions and create new safeguards against the abuse of conflict of interest; and
- consolidation of the present divided responsibility for supervising federal bank and non-bank financial institutions, and measures to strengthen the effectiveness of federal supervision.

Following is a general outline of the new proposals:

Powers of Institutions

While separation of institutions will be retained for supervisory purposes, the policy will permit common ownership of banks, trust and loan companies, insurance companies and investment dealers, subject to the general ownership policy outlined below. Financial institutions will have the option of organizing under a financial holding company or of holding other regulated institutions as direct subsidiaries.

Large financial institutions generally will not be permitted to acquire other large institutions. They will be expected to expand into new areas only by creating new subsidiaries rather than taking over existing ones. An exception will be made in the case of securities dealers, which may be acquired by federally regulated financial institutions.

Trust, loan and insurance companies will have full powers to undertake consumer lending and -- for firms meeting certain criteria -- full commercial lending powers. The commercial loan field will be open to non-bank institutions having a minimum \$25 million in capital and supervisory approval.

All federally regulated financial institutions will be permitted to offer investment advice and portfolio management services. They will also be allowed to offer a full range of investment services through a subsidiary.

Banks and insurance companies will be given some additional fiduciary powers and will be allowed to offer a full range of fiduciary services through a trust company subsidiary or affiliate.

To ensure a strong Canadian presence in the securities market, domestically owned regulated financial institutions will be permitted to own securities dealer subsidiaries, and legislation to permit this will be introduced early in the New Year. Schedule B banks and other non-resident-controlled financial institutions under federal regulation will be allowed to buy up to 50 per cent of a securities dealer only as of June 30, 1987, and 100 per cent of a securities dealer as of June 30, 1988.

All institutions will also have full "networking" capability -- the ability to offer customers another institution's services -- except for retailing insurance.

The paper notes: "This approach recognizes market trends towards greater competition among all types of financial institutions. It removes regulatory restrictions that no longer serve public policy goals and that, in fact, risk denying the full benefits of competition, efficiency and innovation to Canadian users of financial services."

To ensure the new powers enhance competition, the Minister of Finance will retain the discretionary power to approve mergers or acquisitions.

The requirement that chartered banks keep non-interest-bearing reserves in the Bank of Canada will be phased out starting in 1990.

Ownership Policy

The ownership policy proposed will reinforce other policy measures to promote competition and enhance solvency.

- Commercial-financial links will be limited and, where they exist, a significant minority shareholding will be required.
- Greater scope will be provided for owner-managed institutions, including banks, where there are no commercial links.
- Cumulative voting for directors will be required.

The Minister said: "The scope exists for greater use of ownership policy to help achieve the public policy goals that are unique to the financial industry, and we are taking such measures. But in a dynamic and competitive financial system there is room for many forms of ownership. We are adopting a practical and balanced approach that will preserve the benefits of majority control while reducing the risks that can arise through commercial links."

For banks, rule changes will permit smaller domestic banks to be closely held by shareholders with no commercial interests. This will allow for greater access to capital and majority shareholder direction in their development and growth stage, without the risks that arise through commercial-financial links. For non-banks, rule changes will arrest new ownership linkages between the financial and commercial sectors of the economy and, where they continue to exist, ensure a significant minority shareholding.

For larger banks, the policy will retain the present individual shareholding limit of 10 per cent. Smaller domestic banks could be wholly owned by financial interests. They could grow to a substantial size -- a capital base of \$750 million which would support about \$15 billion in assets -- before having to move to a more widely held share ownership. Once over that asset threshold, a bank would be required to have a minimum of 35 per cent of its shares publicly traded and widely held within five years. If a bank failed to comply with this rule, its ability to grow would be constrained.

For trust, loan and insurance companies the following regime will apply:

- As of December 18, 1986, approval for the incorporation of new trust, loan and insurance companies will not be granted to applicants with significant commercial interests. For existing non-bank financial institutions with capital in excess of \$50 million, commercial interests will not be permitted after December 18, 1986 to increase ownership positions of more than 10 per cent, or to acquire ownership positions exceeding 10 per cent.
- Commercially linked trust, loan, and insurance companies with more than \$50 million in capital will be required to have 35 per cent of their voting shares publicly traded and widely held by December 31, 1991 or within five years of reaching the \$50 million capital threshold.
- Trust, loan and insurance companies with more than \$750 million in capital and no commercial links will be required to have 35 per cent of their voting shares publicly traded and widely held by December 31, 1991 or within five years of reaching the \$750 million capital threshold.

- For non-bank financial institutions with capital in excess of \$750 million, no shareholders will be permitted after December 18, 1986 to increase ownership positions that exceed 10 per cent or acquire ownership positions exceeding 10 per cent.

To give minority shareholders an effective voice, cumulative voting procedures will be mandatory for the election of directors of financial institutions where any single shareholder owns more than 10 per cent of the institution.

A Framework for Prudential Regulation

Mr. Hockin noted that the ownership policy can "support -- but not replace -- rigorous controls on self-dealing and vigilance in the system of corporate governance".

New measures will strictly control the practice of self-dealing -- non-arm's-length transactions between a financial institution and persons that are in a position of influence over or control of the institution.

The current rules will be expanded and made uniform for all financial institutions. Most non-arm's-length transactions will be banned.

Non-arm's-length transactions in services will be generally permitted provided no special terms are granted, and subject to controls including monitoring by independent members of the board of directors.

Rules will also be introduced to monitor and control transactions between related financial institutions.

Safeguards against abuses of conflict of interest will be introduced. The approach will include greater disclosure to consumers and shareholders, barriers to prevent the dissemination of inside information within an institution, and enhanced internal scrutiny to ensure effective operation of these safeguards.

A number of measures are proposed to improve supervision of institutions by their boards of directors and to strengthen the role of external auditors. Committees of independent directors will have a particular role in this area.

The investment rules for non-bank financial institutions, and for pension funds, will be replaced with a new regime based on the concept of a "prudent portfolio". This will emphasize diversity of investments and improved matching of the nature of assets to the nature of the firm's liabilities.

Improving the Supervisory System

A new Office of the Superintendent of Financial Institutions will be established to exercise supervision over both banks and non-bank financial institutions. It will combine the Office of the Inspector General of Banks and the Department of Insurance.

The Superintendent will have stronger and clearer powers to deal with unsafe and unsound business practices, and with financially troubled institutions. Procedures for dealing with financially troubled institutions -- both banks and non-bank financial institutions -- will be standardized, including powers to assume control of an institution in emergency situations.

The Canada Deposit Insurance Corporation will remain a separate body, with private sector representation on its board of directors, and will be given clearer powers in relation to issuing and terminating insurance coverage.

Un certain nombre de mesures sont proposées afin d'améliorer la surveillance exercée sur une institution par ses administrateurs et de renforcer le rôle des vérificateurs externes. Les comités d'administrateurs indépendants auront un rôle particulier à jouer à cet égard.

Les règles de placement applicables aux institutions financières non bancaires et aux caisses de retraite seront remplacées par un nouveau régime fondé sur le principe de la « gestion prudente du portefeuille ». Ce régime mettra l'accent sur la diversification des placements et une meilleure concordance entre la nature des éléments d'actif et de passif.

Amélioration du système de surveillance

Un nouveau Bureau du surintendant des institutions financières sera chargé de superviser et les banques et les institutions financières non bancaires. Il regroupera les fonctions du Bureau de l'Inspecteur général des banques et du Département des assurances.

Le surintendant disposera de pouvoirs plus précis et plus étendus pour régler les cas de pratiques commerciales dangereuses ou peu judicieuses, ainsi que d'institutions en difficulté financière. Les dispositions applicables aux institutions connaissant des problèmes financiers -- qu'il s'agisse de banques ou d'institutions non bancaires -- seront uniformisées et permettront de prendre en charge une institution en cas d'urgence.

La Société d'assurance-dépôts du Canada restera un organisme distinct, avec une représentation du secteur privé dans son conseil d'administration, et disposera de pouvoirs plus précis en matière d'octroi et de retrait de l'assurance.

- Dans le cas des institutions financières non bancaires dont le capital dépasse \$750 millions, aucun actionnaire ne pourra, après le 18 décembre 1986, accroître une participation supérieure à 10 pour cent ou acquérir une participation de plus de 10 pour cent.

Pour que les actionnaires minoritaires disposent d'un pouvoir véritable, des règles de vote cumulatif seront rendues obligatoires pour l'élection des administrateurs des institutions financières lorsqu'un actionnaire détient à lui seul plus de 10 pour cent du capital de l'institution.

Cadre de réglementation prudente

M. Hockin a fait remarquer que la politique de propriété pouvait « soutenir, mais non remplacer, un contrôle rigoureux des transactions intéressées et une attitude vigilante dans la régie des sociétés ».

De nouvelles mesures permettront de contrôler strictement les transactions intéressées -- les transactions avec lien de dépendance entre une institution financière et les personnes qui sont en mesure d'exercer une influence ou un contrôle sur cette dernière.

Les règles actuelles seront élargies et uniformisées pour toutes les institutions financières. La plupart des opérations avec lien de dépendance seront interdites. Les opérations de services comportant un lien de dépendance seront généralement permises, pourvu qu'aucune condition spéciale ne soit accordée et que des mesures de contrôle, comportant une surveillance par des administrateurs indépendants, soient appliquées.

On instaurera également des règles afin de contrôler et de surveiller les transactions entre institutions financières liées.

Des mesures de contrôle seront instituées pour éviter les abus de conflits d'intérêt. Elles comporteront une meilleure divulgation aux consommateurs et aux actionnaires, l'établissement de barrières destinées à éviter la diffusion de renseignements d'initiés dans une institution et un meilleur examen interne afin d'assurer le bon fonctionnement de ces mesures de contrôle.

Dans le cas des grandes banques, on conservera le plafond de 10 pour cent qui limite actuellement les participations individuelles. Les banques intérieures moins importantes pourraient appartenir en propriété exclusive à des intérêts financiers. Elles pourraient atteindre une taille appréciable -- un capital de \$750 millions, correspondant à un actif d'environ \$15 milliards -- avant d'être obligées de mettre une bonne partie de leurs actions entre les mains du public. Une fois que ce seuil serait atteint, la banque devrait avoir au moins 35 pour cent de ses actions transférées publiquement et largement réparties dans les cinq ans. Si une banque ne se conformait pas à cette règle, sa capacité de croissance serait limitée.

Le régime suivant s'appliquera aux sociétés de fiducie, de prêt et d'assurance:

- À compter du 18 décembre 1986, le droit de constituer de nouvelles sociétés de fiducie, de prêt ou d'assurance ne sera pas accordé aux demandeurs qui ont d'importants intérêts commerciaux. Dans le cas des institutions financières non bancaires existantes dont le capital dépasse \$50 millions, on ne permettra pas à des intérêts commerciaux, après le 18 décembre 1986, d'accroître une participation qui dépasse 10 pour cent ou à acquérir une participation supérieure à 10 pour cent.

- Les sociétés de fiducie, de prêt ou d'assurance ayant des liens commerciaux et dont le capital dépasse \$50 millions devront avoir 35 pour cent de leurs actions avec droit de vote transférées publiquement et largement réparties d'ici le 31 décembre 1991, soit dans les cinq années suivant la date où leur capital aura atteint le seuil de \$50 millions.

- Les sociétés de fiducie, de prêt ou d'assurance qui ont un capital de plus de \$750 millions et aucun lien commercial devront avoir 35 pour cent de leurs actions avec droit de vote transférées publiquement et largement réparties d'ici le 31 décembre 1991, soit dans les cinq années suivant la date où leur capital aura atteint le seuil de \$750 millions.

La politique proposée en matière de propriété renforcera les autres mesures visant à promouvoir la concurrence et à améliorer la solvabilité.

- Les liens commerciaux-financeurs seront limités et, lorsqu'il en existe, une importante participation minoritaire sera exigée.

- La marge de manœuvre des institutions gérées par les propriétaires, banques comprises, sera élargie lorsqu'elles n'ont pas de liens commerciaux.

- Des droits de vote cumulatifs seront exigés pour les administrateurs.
- Le ministre a déclaré: «Il est possible de se servir davantage de la politique de propriété pour atteindre des objectifs de politique publique qui sont particuliers au secteur financier, et nous prenons des mesures en ce sens. Cependant, un système financier dynamique et concurrentiel laisse place à bien des formes de propriété. Nous adoptons une approche pratique et équilibrée qui maintiendra les avantages offerts par des participations majoritaires, tout en réduisant les risques que peuvent entraîner des liens commerciaux.»

Dans le cas des banques, la modification des règles permettra aux petites banques intérieures d'avoir un capital fermé détenu par des actionnaires qui n'ont pas d'intérêt commerciaux. Ces banques pourront ainsi avoir un meilleur accès au capital et à la direction de l'actionnaire majoritaire pendant leur développement et leur croissance, sans les risques que peuvent entraîner des liens commerciaux. Dans le cas des institutions non bancaires, les changements de règles interdiront les nouveaux liens au niveau de la propriété entre les secteurs financier et commercial de l'économie et, lorsque des liens de ce genre continuent d'exister, les changements assureront une importante participation minoritaire.

Les banques et les compagnies d'assurance recevront certains pouvoirs fiduciaires supplémentaires et pourront offrir un éventail complet de services fiduciaires par l'intermédiaire d'une société de fiducie filiale ou affiliée.

Pour assurer une forte présence canadienne dans le secteur des valeurs mobilières, on autorisera les institutions financières réglementées appartenant à des intérêts canadiens à posséder une filiale de courtage en valeurs mobilières; les mesures législatives habilitantes seront déposées au début de l'an prochain. Les banques de l'Annexe B et les autres institutions financières contrôlées par des non-résidents qui sont réglementées au niveau fédéral seront autorisées à acquérir jusqu'à 50 pour cent d'une maison de courtage en valeurs mobilières au 30 juin 1987 seulement et 100 pour cent au 30 juin 1988.

Toutes les institutions pourront également établir des réseaux -- c'est-à-dire offrir à leur clientèle les services d'une autre institution -- sauf pour la vente au détail d'assurance.

Le document indique: « Cette politique tient compte de la tendance à un accroissement de la concurrence entre toutes les catégories d'institutions financières. Elle élimine les obstacles réglementaires qui ne servent plus les objectifs de la politique publique et risquent au contraire d'empêcher les utilisateurs canadiens de services financiers de bénéficier au maximum de la concurrence, de l'efficacité et de l'innovation. »

Pour s'assurer que les nouveaux pouvoirs accroissent la concurrence, le ministre des Finances gardera le pouvoir discrétionnaire d'approuver les fusions ou acquisitions.

L'obligation imposée aux banques à charte de maintenir des réserves sans intérêt à la Banque du Canada sera éliminée à partir de 1990.

- le regroupement des responsabilités de surveillance des banques et des institutions financières non bancaires, qui sont actuellement divisées au niveau fédéral, et des mesures visant à rendre la surveillance fédérale plus efficace.

Voici les grandes lignes des nouvelles propositions:

Pouvoirs des institutions

Les institutions demeureront distinctes aux fins de surveillance, mais on permettra la propriété commune de banques, de sociétés de prêt et de fiducie, de compagnies d'assurance et de maisons de courtage en valeurs mobilières, sous réserve de la politique générale de propriété décrite ci-après. Les institutions financières pourront, à leur choix, s'organiser sous l'égide d'une société de portefeuille financière ou détenir d'autres institutions réglementées sous forme de filiales directes.

Les grandes institutions financières ne seront pas autorisées, en règle générale, à acquérir une autre grande institution. Elles ne devront s'étendre à de nouveaux domaines d'activités qu'en établissant de nouvelles filiales, plutôt qu'en prenant le contrôle de sociétés existantes. Une exception sera prévue dans le cas des courtiers en valeurs mobilières, qui pourront être acquis par des institutions financières réglementées au niveau fédéral.

Les sociétés de fiducie, de prêt et d'assurance auront des pouvoirs illimités de prêt à la consommation et -- dans le cas des entreprises qui satisfont à certains critères -- des pouvoirs illimités de prêt commercial. Le domaine du crédit commercial sera ouvert aux institutions non bancaires qui ont un capital d'au moins \$25 millions et l'autorisation des autorités de surveillance.

Toutes les institutions financières réglementées au niveau fédéral pourront offrir des services de conseil en placement et de gestion de portefeuille. Elles seront également autorisées à offrir une gamme complète de services de placement par l'intermédiaire d'une filiale.

Le cadre d'orientation propose d'agir dans quatre domaines clés:

- l'intégration des services financiers, par le biais de la propriété commune d'institutions et de l'élargissement des pouvoirs;

- une politique pragmatique en matière de propriété qui porte un coup d'arrêt à l'intensification des liens commerciaux-financiers dans l'économie, tout en maintenant une concurrence équilibrée dans le secteur financier;

- un cadre renforcé de réglementation prudente; et

- un système de surveillance modernisé et amélioré.

M. Hockin a précisé que les propositions «aideront nos institutions à croître et à prospérer. Elles leur permettront d'offrir de meilleurs services aux consommateurs. Et elles permettront aux Canadiens de continuer à avoir confiance dans l'un des meilleurs systèmes financiers au monde.»

Les principales propositions comportent:

- la possibilité d'avoir des propriétaires communs pour des institutions financières réglementées -- banques, sociétés de fiducie et de prêt, compagnies d'assurance-vie et courtiers en valeurs mobilières -- et un élargissement des pouvoirs, ce qui permettrait aux succursales de quartier d'offrir une vaste gamme de services nouveaux, d'où une meilleure possibilité de tout trouver sous un même toit;

- un arrêt de l'accroissement des liens entre des intérêts commerciaux et des institutions financières non bancaires, ainsi que la mise en place d'une importante participation minoritaire dans les institutions qui ont des liens commerciaux;

- un cadre réglementaire qui contrôlera rigoureusement les transactions intéressées dans toutes les institutions financières réglementées au niveau fédéral et instaurera de nouvelles mesures de contrôle contre les abus de conflits d'intérêt; et

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Communiqué

En embargo jusqu'à 16h30 HNE

Ottawa, le 18 décembre 1986
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CADRE D'ORIENTATION POUR LES INSTITUTIONS FINANCIÈRES DU CANADA DÉPOSÉ AU PARLEMENT

Le ministre d'État aux Finances, l'honorable Thomas Hockin, a déposé aujourd'hui au Parlement un document d'orientation qui expose le cadre de réglementation des banques et des autres institutions financières réglementées au niveau fédéral au Canada.

Le document, intitulé Le secteur financier: nouvelles directions, vise à relever le défi du changement rapide que vit le système financier. Il servira de base aux mesures législatives qui seront présentées en 1987.

M. Hockin, notant que le secteur financier évolue rapidement dans le monde, a déclaré que la nouvelle politique visait à permettre aux institutions financières canadiennes «d'exploiter les possibilités offertes par le changement».

«Nous voulons», a-t-il précisé, «un système financier sain qui fournisse aux Canadiens des services innovateurs et concurrentiels, qui offre un choix plus large aux épargnants et aux investisseurs canadiens et qui assure la promotion d'institutions financières sûres, supervisées efficacement et concurrentielles au niveau international.»

Le ministre a affirmé que le nouveau cadre d'orientation «permettra d'atteindre ces objectifs importants au moyen de mesures qui, à notre avis, sont réalistes, équilibrées et fonctionnelles».

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Remarks by

The Honorable Thomas Hockin
Minister of State (Finance)

House of Commons

Thursday, December 18, 1986

on tabling the policy paper

New Directions for Financial Institutions

CHECK AGAINST DELIVERY

Mr. Speaker:

Today, I am announcing policies which will provide new direction for our financial services industry. It is an industry that touches all Canadians. Our savings accounts, mortgages, car loans, insurance policies -- all of these and more are financial products essential to our daily lives. It is critical that we be well served by this industry.

All members know that Canada is fortunate to possess one of the finest financial systems in the world. It is composed of sound world-class institutions. It employs hundreds of thousands of Canadians and serves millions. It is one of Canada's leading export industries.

The financial industry is in the midst of rapid change. Communications technology has created 24-hour global markets. The importance of international capital flows has dramatically increased. The traditional roles of financial institutions are changing.

These global forces have challenged existing legislation designed for an earlier and less dynamic era. That is why, early in its mandate, the government announced its intention to work with the provinces, the public and the financial community to reform financial regulations to seize the opportunities offered by change.

In April of last year, the government set out its objectives for financial reform; we made specific proposals to focus the debate.

In the 18 months since, extensive discussion, study and analysis have taken place. A variety of views have been expressed.

There is widespread appreciation of the key role of the financial sector in economic renewal -- not just in facilitating investment in Canada, but as an exporter and employer.

There is agreement that our financial system is fundamentally sound, and that the basic division of supervisory responsibility for our institutions should remain in place.

There is universal acknowledgement of the trend toward integrated financial services, both here and abroad, and broad agreement on the benefits this brings to consumers.

There is continuing concern regarding self-dealing and abuses of conflict of interest in both closely and widely held institutions.

We have received detailed and practical advice on how to improve our regulatory and supervisory structures.

While there have been diverse views expressed on the best means to regulate our financial system, all of us seek the same goal.

What we all want is a sound financial system that provides Canadians with innovative and competitive services, that broadens the range of choice for Canadian savers and investors, and that fosters safe and well supervised financial institutions that can compete effectively around the world.

Today, I am announcing policies which will achieve these important objectives -- policies which we believe are realistic, balanced and workable.

The document I am tabling today, New Directions for the Financial Sector, will allow the Canadian financial community to plan and act with confidence. It outlines the policies that will be tabled as legislation in 1987. It also provides the framework in which the government will exercise the specific powers regarding the transfer of ownership as proposed in Bills C-8 and C-9, both of which received first reading on October 6, 1986.

The policies we are proposing are far-ranging and will have a profound and positive impact. They deal with inter-related issues that call for an integrated approach. Careful study of the document I am tabling is necessary to gain a full appreciation of the scope of our proposals.

The essence of our approach is to act in four inter-related areas.

- . First, we will allow the integration of financial services through the common ownership of institutions and the extension of powers.
- . Second, we will introduce a pragmatic ownership policy that checks the growth of commercial-financial links in the economy while maintaining balanced competition within the financial services sector.
- . Third, we will provide a strong framework for prudential regulation.
- . And fourth, we will modernize and strengthen our supervisory system.

Let me discuss each area in turn. First, the integration of financial services.

The government believes our laws should reflect today's market reality. Today banks and non-bank financial institutions are not only capable of providing, but are actually providing an ever-more common range of services -- services that meet the needs of Canadian savers, borrowers and investors.

To foster such common benefits, the government will end unnecessary institutional barriers within the financial services industry and allow the integration of financial services. Restrictions on common ownership of regulated financial institutions will be removed, allowing common ownership through affiliates or subsidiaries. Separate institutions will be maintained for supervisory purposes. Full networking of services will be allowed between institutions, save for the retailing of insurance.

As well, in-house powers will be broadened for institutions in the various "pillars" of the financial industry. All trust, loan and life insurance companies will be granted full consumer lending powers; the larger ones will be eligible for full commercial lending powers. All federally regulated institutions will be able to offer investment advice and portfolio management services. Banks and

insurance companies will be granted ancillary fiduciary powers. From the point of view of Canadian consumers, these policies will allow neighbourhood branches to offer a wide array of innovative and convenient services, with greater potential for one-stop shopping.

The philosophy underpinning financial services integration will be to build -- not buy. To protect against harmful concentration, acquisition of financial services companies will require the approval of the Minister of Finance. As a general rule, large financial institutions will not be allowed to acquire other large institutions.

An exception to this general policy will be made for the securities industry. Given the desire for a viable Canadian presence in this strategic industry, the federal government will permit domestically owned, federally regulated financial institutions to build or buy securities dealer subsidiaries. Necessary legislative amendments to permit such participation in the securities industry will be introduced in the near future.

The second area of action is a pragmatic and responsible ownership policy.

Current Canadian law requires all large domestic banks to be widely held, and new domestic banks to attain widely held status within 10 years. Trust, loan and stock insurance companies, on the other hand, do not have similar ownership rules. Many of these institutions also have significant commercial links.

While this variety of ownership forms is not unique to Canada, the development of significant links between these non-bank financial institutions and companies with commercial interests has been a source of intense debate. Some have emphasized the issue of concentration of power and the potential for self-dealing and conflict of interest. However, there is also widespread recognition that entrepreneurial owners have been a source of dynamism in the industry. They have provided firms with the leadership and financial strength to compete with our large banks.

Both these arguments are valid. As with many issues in this complex age, a balance must be struck.

To lessen the potential dangers of commercial-financial links while promoting competition, the government intends to implement the following policy:

Smaller banks will be permitted to be closely held by domestic investors with no commercial interests. They will be allowed to remain closely held until they attain a capital base of \$750 million -- a base that will support about \$15 billion in assets.

Banks that exceed this capital threshold of \$750 million will subject to the following ownership rules:

Shareholders with less than 10 per cent of the shares in any class, or any series of any class, will be permitted to acquire additional shares to a ceiling of 10 per cent.

- . Shareholders with more than 10 per cent of such shares will not be permitted to acquire additional shares in the same class or series.
- . Within five years of reaching the capital threshold, at least 35 per cent of the voting shares must be publicly traded and widely held. The penalty for non-compliance will be a constraint on the bank's ability to grow.

These measures will ensure that major existing banks remain widely held, and that closely held banks of substantial size move towards wide ownership as new equity is issued.

Ownership policies regarding trust, loan and insurance companies will be complementary, but not identical, reflecting the different histories and circumstances of these institutions.

Like many Canadians, the government is concerned with the potential dangers of growing commercial-financial links. Yet we are equally concerned that an over-zealous reaction could limit future competition in the financial sector. We are therefore proposing a policy which arrests the growth of commercial-financial links while maintaining strong sources of innovation and competition in the marketplace.

To achieve these twin objectives, the following regime will be implemented, effective today:

- . Approval for the incorporation of new trust, loan and insurance companies will be restricted to applicants with no significant commercial interests.
- . Commercial interests will not be permitted to acquire or increase significant ownership positions in non-bank institutions with capital in excess of \$50 million.
- . Such larger non-bank institutions with commercial links will be required to have at least 35 per cent of their voting shares publicly traded and widely held by December 31, 1991, or within five years of reaching the \$50 million capital threshold.
- . Trust, loan and insurance companies with no commercial links and with capital in excess of \$750 million will also be required to have at least 35 per cent of their voting shares publicly traded and widely held by December 31, 1991 or within five years of reaching the \$750 million capital threshold. Once this threshold is exceeded, no shareholder will be able to acquire an ownership position in the institution in excess of 10 per cent and significant shareholders will not be permitted to increase their ownership positions.

These policies will foster wider ownership of large financial institutions in the future while recognizing the existing positions of current investors. By causing current laws protecting minority shareholders to come into play, they will ensure market disclosure, public scrutiny and the presence of strong outside directors.

Yet, protecting the solvency and integrity of institutions requires more than changes in ownership rules. No single ownership policy can protect against imprudent management or questionable business practices. What is needed is an effective and vigilant system of self-governance, supported by independent and objective directors and an effective supervisory system.

That is why we will:

- . limit commercial-financial links;
- . provide sufficiently broad minority shareholding to ensure market disclosure and public scrutiny;
- . introduce cumulative voting rules for the election of directors; and
- . create a stronger framework for prudential regulation.

In this strong framework, the government will strictly control self-dealing in all financial institutions. The list of non-arm's-length parties will be expanded and made uniform for banks and non-banks. Most asset transactions between such persons will be banned and service transactions will be strictly controlled. Rules will also be introduced to monitor and control transactions between related financial institutions.

Safeguards against abuses of conflict of interest will be introduced. Procedures and controls to prevent the flow of insider information between fiduciary and other financial activities will be implemented. Disclosure rules will be strengthened.

In accord with the overall approach recommended by Mr. Justice Estey, the basic division of responsibilities for ensuring and monitoring the health of institutions among the supervisory authority, the directors of the institutions and the external auditors will remain in place. A number of proposals, however, will improve directors' supervision of their institutions' operations and strengthen the role of auditors.

All financial institutions will be required to have a minimum of one-third of their directors independent of the institution. These independent directors will be asked to perform additional duties on corporate review committees made up solely of such independent directors.

During the Estey enquiry, considerable time and effort was taken to study current accounting principles. As Mr. Justice Estey stated, in some cases difficulties were easy to define but solutions were not easy to develop. In line with his recommendations, a number of steps will be taken, in consultation with the accounting profession, to review accounting standards as they apply to financial institutions. As well, measures will be introduced to ensure appropriate communication among auditors, financial institutions they audit, and federal regulators.

These measures to improve the framework for effective regulation will ensure that Canadians can maintain confidence in the integrity of their financial system while enjoying the benefits of dynamic competition.

The fourth major area where we are acting is to improve and strengthen the supervision of financial institutions.

Consistent with the integration of financial services, the Office of the Inspector General of Banks and the Department of Insurance will be consolidated into a new body -- the Office of the Superintendent of Financial Institutions. The new Office will have full supervisory responsibilities for banks and non-bank financial institutions. The Minister of Finance will have overall responsibility for the new Office. The Superintendent will be clearly responsible for the administration of statutes, the execution of supervisory actions and the assessment of solvency. Measures will also be introduced to clarify and expand the Superintendent's power to deal effectively with unsound business practices and with financially troubled institutions.

The government recognizes that the Superintendent requires a full awareness of market trends and developments. The government will therefore act on Mr. Justice Estey's recommendation to form an advisory committee of technical experts with a broad mandate, including a role in the improvement of early warning systems.

The government believes that the Canada Deposit Insurance Corporation should remain a separate body. This will allow the retention of private sector expertise on the CDIC Board of Directors; and it will preserve CDIC's established relationship with provincial authorities supervising CDIC-insured provincial institutions.

In maintaining the CDIC as a separate agency, the government will equip it with additional powers. Premium levels will also be revised to eliminate the existing deficit in a timely way.

Mr. Speaker, those are the four key areas where we are acting to provide new directions for our financial sector:

- . the integration of financial services
- . a pragmatic ownership policy,
- . a modern framework for prudential regulation, and,
- . an effective federal supervisory structure.

These are four interrelated areas which will provide a framework for a sound and competitive financial system -- today and for the future.

Our policies in these areas are pragmatic -- rooted in today's market realities. They are practical. They are balanced. They are needed. And they will work.

As the financial services industry enters this new regime, all Canadians will benefit. The ability to provide innovative and competitive financial products -- mortgages, investments, loans -- to Canadians in all parts of our country will no longer be artificially limited by outmoded laws. But where necessary, regulation and supervision are being tightened to protect the savings of Canadians.

We have long had reason to be proud of our financial system. Our institutions have served us well. And they have served us well because Canadians had the wisdom to deal with the world as they found it -- to fuse the real with the ideal. We believe these policies follow in that pragmatic and responsible tradition.

These proposals will lay a solid foundation for the future. They will help our institutions grow and prosper. And they will ensure that Canadians can continue to have confidence in one of the finest financial systems in the world.

Le gouvernement est conscient que le surintendant devra être parfaitement au courant des tendances et de l'évolution du marché. Aussi donnera-t-il suite à une recommandation du juge Estey d'établir un comité consultatif formé de spécialistes et ayant un large mandat, notamment, celui de contribuer à l'amélioration des systèmes de prédétection.

Le gouvernement estime que la Société d'assurance-dépôts du Canada doit rester un organisme distinct. Cela permettra de conserver les compétences du secteur privé au conseil d'administration de la SADC et de préserver les relations établies par cette dernière avec les autorités provinciales qui supervisent les institutions à charte provinciale assurées par la SADC.

Tout en maintenant la SADC, le gouvernement la dotera de pouvoirs supplémentaires. On révisera également les primes de manière à éliminer progressivement le déficit actuel. Monsieur le président, voilà les quatre grands domaines dans lequel nous agissons afin de fournir des orientations nouvelles à notre secteur financier:

- l'intégration des services financiers;
- une politique pragmatique en matière de propriété;
- un cadre moderne de réglementation prudente, et
- une structure efficace de supervision au niveau fédéral.

Ce sont là quatre domaines interdépendants qui fourniront un cadre dans lequel notre système financier pourra être sain et compétitif, aujourd'hui et demain.

Notre politique dans ce domaine est pragmatique et en prise sur les réalités du marché d'aujourd'hui. Elle est pratique, équilibrée, nécessaire, et elle sera efficace.

Quand ce nouveau régime s'appliquera à l'industrie des services financiers, tous les Canadiens en profiteront. La capacité d'offrir des services financiers innovateurs et concurrentiels -- hypothèques, placements, prêts -- aux Canadiens vivant dans toutes les régions du pays ne sera plus limitée artificiellement par des lois démodées. Cependant, lorsque cela est nécessaire, la réglementation et la surveillance sont renforcées pour protéger l'épargne des Canadiens.

Depuis longtemps, nous avons lieu d'être fiers de notre système financier. Nos institutions nous ont bien servis. Et cela, parce que les Canadiens ont eu la sagesse de prendre le monde comme il était, de réaliser la fusion du réel et de l'idéal. Cette politique s'inscrit à notre avis dans le droit fil de cette tradition de pragmatisme et de responsabilité.

Ces propositions jetteront des fondations solides pour l'avenir. Elles aideront nos institutions à croître et à prospérer. Enfin, elles permettront aux Canadiens de pouvoir continuer à avoir confiance dans l'un des meilleurs systèmes financiers au monde.

Dans ce cadre renforcé, le gouvernement contrôlera rigoureusement les transactions intéressées dans toutes les institutions financières. La liste des parties ayant un lien de dépendance sera étendue et uniformisée pour les banques et les institutions non bancaires. La plupart des opérations portant sur des biens avec des parties ayant un lien de dépendance seront interdites, et les opérations de services seront strictement contrôlées. Des règles seront également instituées pour permettre de surveiller et contrôler les opérations entre institutions financières liées.

On instaurera des mesures de contrôle contre les abus de conflits d'intérêt. Des dispositions et des contrôles seront appliqués pour éviter que des renseignements d'inités circulent entre les services fiduciaires et les autres serveurs d'une institution financière. Les règles de divulgation seront renforcées.

Conformément à l'approche globale recommandée par le juge Estey, la répartition fondamentale des responsabilités de surveillance de la santé des institutions entre les autorités de supervision, les administrateurs des institutions et les vérificateurs externes sera maintenue. Un certain nombre de propositions renforceront cependant la surveillance exercée par les administrateurs sur les opérations de leur institution, ainsi que le rôle des vérificateurs.

Toutes les institutions financières devront avoir au moins un tiers d'administrateurs indépendants. Ces derniers devront s'acquitter de tâches supplémentaires en participant à des comités d'examen composés uniquement d'administrateurs indépendants.

Au cours de l'enquête du juge Estey, on a consacré beaucoup de temps et d'effort à l'étude des principes comptables en vigueur. Comme l'a déclaré le juge Estey, les difficultés étaient parfois faciles à cerner, mais les solutions difficiles à trouver. Conformément à ses recommandations, plusieurs mesures seront prises, en consultation avec la profession comptable, afin de réviser les normes comptables applicables aux institutions financières. Des mesures seront également adoptées afin d'assurer de bonnes communications entre les vérificateurs, les institutions financières qu'ils examinent et les organismes fédéraux de réglementation.

Ces mesures visant à améliorer le cadre de réglementation permettront aux Canadiens de continuer à avoir confiance dans l'intégrité de leur système financier, tout en bénéficiant d'une concurrence dynamique.

Le quatrième grand domaine dans lequel nous agissons est l'amélioration et le renforcement de la surveillance des institutions financières.

Conformément à l'intégration des services financiers, le Bureau de l'inspecteur général des banques et le Département des assurances seront regroupés en un nouvel organisme, le Bureau du surintendant des institutions financières. Ce nouveau bureau assumera toutes les responsabilités de surveillance des banques et des institutions financières non bancaires. Il relèvera du ministre des Finances. Le surintendant aura clairement la responsabilité de l'application des lois, de l'exécution des mesures de surveillance et de l'évaluation de la solvabilité. Des mesures seront prises afin de préciser et de renforcer le pouvoir du surintendant de régler efficacement les cas de pratiques commerciales peu judicieuses et d'institutions en difficulté financière.

Pour atteindre ce double objectif, nous mettrons en place le régime suivant, à compter d'aujourd'hui:

- Ne seront autorisés à constituer une nouvelle société de fiducie, de prêt ou d'assurance que les demandeurs qui n'ont pas d'importants intérêts commerciaux.
- On ne permettra pas à des intérêts commerciaux d'acquiescer ou d'acquiescer une importante participation dans une institution non bancaire dont le capital dépasse \$50 millions.
- Les institutions non bancaires d'une certaine taille avec des liens commerciaux devront avoir au moins 35 pour cent de leurs actions avec droit de vote transférées publiquement et largement réparties d'ici le 31 décembre 1991, soit dans les cinq années suivant la date où leur capital atteindra le seuil de \$50 millions.
- Les sociétés de fiducie, de prêt et d'assurance qui n'ont pas de liens commerciaux et dont le capital dépasse \$750 millions seront elles aussi obligées d'avoir au moins 35 pour cent de leurs actions transférées publiquement et largement réparties d'ici le 31 décembre 1991, soit dans les cinq années suivant la date où leur capital aura atteint le seuil de \$750 millions. Une fois ce seuil atteint, aucun actionnaire ne pourra acquiescer dans l'institution une participation supérieure à 10 pour cent, et les actionnaires importants ne seront pas autorisés à accroître leur participation.

Ces règles favoriseront à l'avenir un élargissement de la participation au capital des grandes institutions, tout en tenant compte de la situation des investisseurs actuels.

En faisant intervenir les lois qui protègent à l'heure actuelle les actionnaires minoritaires, celles-ci assureront également un divulgation sur le marché, un examen public et une présence de forts administrateurs de l'extérieur. Cependant, pour protéger la solvabilité et l'intégrité des institutions, il ne suffit pas de modifier les règles de propriété. Aucune politique de propriété ne peut à elle seule nous prémunir contre une gestion imprudente ou des pratiques commerciales discutables. Il nous faut un système efficace et vigilant d'autorégulation, soutenu par des administrateurs indépendants et objectifs ainsi qu'un régime de surveillance efficace.

C'est la raison pour laquelle on:

- limitera les liens commerciaux-financiers;
- exigera une participation minoritaire assez large pour assurer une divulgation sur le marché et un examen public;
- instaurera des droits de vote cumulatifs pour l'élection des administrateurs; et
- établira un cadre renforcé de réglementation prudente.

Même si cette diversité de formes de propriété n'est pas particulière au Canada, le développement de liens importants entre ces institutions financières non bancaires et des entreprises ayant des intérêts commerciaux a entraîné un vif débat. Certains ont souligné les risques de concentration du pouvoir ainsi que de transactions intéressées et de conflits d'intérêt. Cependant, il est largement reconnu que les propriétaires ont été une source de dynamisme dans le secteur financier. Ils ont insufflé à leurs institutions l'esprit innovateur et la vigueur financière voulus pour concurrencer nos grandes banques.

Les deux arguments sont valables. Comme dans beaucoup d'autres domaines, en cette époque complexe, il faut trouver l'équilibre.

Pour atténuer les dangers possibles des liens commerciaux-financiers tout en favorisant la concurrence, le gouvernement se propose d'appliquer la politique suivante:

Les banques de moindre taille pourront avoir un capital fermé détenu par des investisseurs intérieurs n'ayant pas d'intérêts commerciaux. Elles pourront rester fermées jusqu'à ce que leur capital atteigne \$750 millions -- ce qui correspond à environ \$15 milliards d'actif.

Les banques dont le capital dépasse ce seuil de \$750 millions seront soumises aux règles suivantes en matière de propriété:

- Les actionnaires détenant moins de 10 pour cent d'une catégorie ou d'une série d'une catégorie d'actions pourront porter leur participation à 10 pour cent.
- Les actionnaires ayant plus de 10 pour cent d'une catégorie ou d'une série d'une catégorie d'actions n'auront pas le droit d'acheter d'autres actions de la même catégorie ou série.
- Dans les cinq ans suivant la date où le capital aura atteint le seuil, au moins 35 pour cent des actions avec droit de vote devront être transférées publiquement et largement réparties. La non-observation de ces règles se traduira par une limitation de la capacité de croissance de la banque.

Grâce à ces mesures, les grandes banques existantes garderont un capital largement ouvert, tandis que les nouvelles banques de taille appréciable devront mettre une bonne partie de leurs actions entre les mains du public lorsqu'elles procéderont à des augmentations de capital.

Les règles de propriété applicables aux sociétés de fiduciaire, de prêt et d'assurance seront complémentaires, mais non identiques, en raison de l'évolution historique et de la situation différentes de ces institutions.

Comme bien des Canadiens, le gouvernement craint les dangers d'une intensification des liens financiers-commerciaux. Cependant, nous craignons tout autant qu'une réaction trop rigoureuse ne risque de limiter la concurrence future dans le secteur financier. Nous proposons par conséquent une politique qui porte un coup d'arrêt à l'intensification des liens commerciaux-financiers tout en maintenant une forte dimension innovatrice et concurrentielle sur le marché.

Je voudrais aborder chacun de ces domaines en évoquant d'abord l'intégration des services financiers.

Le gouvernement est d'avis que nos lois devraient refléter les réalités du marché d'aujourd'hui. De nos jours, les banques et les institutions financières non bancaires, non seulement peuvent fournir, mais offrent en fait une gamme de services de plus en plus similaires -- des services qui répondent aux besoins des épargnants, des emprunteurs et des investisseurs canadiens.

Pour permettre de profiter de ces avantages, le gouvernement éliminera les obstacles institutionnels inutiles dans le secteur financier et permettra l'intégration des services financiers. Les restrictions à la propriété commune d'institutions financières réglementées seront supprimées, ce qui permettra l'établissement de liens au niveau de la propriété par l'intermédiaire de sociétés affiliées ou de filiales. On maintiendra des institutions distinctes aux fins de surveillance. L'établissement de réseaux de services sera autorisé sans restriction entre institutions, sauf pour la vente au détail d'assurance.

De plus, les pouvoirs internes des institutions relevant des divers «piliers» du secteur financier seront élargis. Toutes les sociétés de fiducie, de prêt et d'assurance-vie se verront accorder des pouvoirs illimités de prêt à la consommation; les plus importantes d'entre elles auront des pouvoirs illimités de prêt commercial. Toutes les institutions réglementées au niveau fédéral pourront offrir des services de conseil en placement et de gestion de portefeuille. Les banques et les compagnies d'assurance se verront octroyer des pouvoirs fiduciaires accéssoirs. Du point de vue des consommateurs canadiens, cette politique permettra à la succursale de leur quartier d'offrir une vaste gamme de services innovateurs et commodes et accroîtra la possibilité de trouver tout sous un même toit.

La philosophie sur laquelle repose l'intégration des services financiers a pour maître mot bâtir, et non acheter. Pour éviter une concentration nuisible, l'acquisition d'entreprises de services financiers devra être autorisée par le ministre des Finances. En règle générale, les grandes institutions financières ne seront pas autorisées à acquérir d'autres grandes institutions.

On consentira une exception à cette politique générale dans le cas de l'industrie des valeurs mobilières. Étant donné le désir d'assurer une présence canadienne viable dans ce secteur stratégique, le gouvernement fédéral permettra aux institutions financières réglementées au niveau fédéral qui appartiennent à des intérêts canadiens de créer ou d'acheter des filiales faisant le négoce des valeurs mobilières. Les modifications législatives nécessaires seront présentées prochainement.

Le deuxième domaine d'action est une politique de propriété marquée au coin du pragmatisme et du sens des responsabilités.

La loi canadienne oblige actuellement toutes les grandes banques intérieures à avoir un capital largement réparti et les nouvelles banques intérieures, à mettre une bonne proportion de leurs actions entre les mains du public dans les 10 ans. Les sociétés de fiducie, de prêt et les compagnies d'assurance par actions, par contre, ne sont assujetties à aucune règle comparable en matière de propriété. Ces institutions ont également bien souvent d'importants liens commerciaux.

Les transactions intéressées et les abus de conflits d'intérêt, aussi bien dans les institutions fermées que dans les institutions à capital largement réparti, continuent de susciter des préoccupations.

Nous avons reçu des conseils pratiques et détaillés sur la façon d'améliorer notre régime de réglementation et de surveillance.

Les points de vue exprimés sur les meilleurs moyens à employer pour réglementer notre système financier sont variés, mais nous visons tous le même objectif.

Nous voulons un système financier sain qui fournisse aux Canadiens des services innovateurs et concurrentiels, qui offre un choix plus large aux épargnants et aux investisseurs canadiens et qui assure la promotion d'institutions financières saines, surveillées efficacement et compétitives à l'échelle internationale.

J'annonce aujourd'hui des politiques qui permettront d'atteindre ces objectifs importants -- des politiques qui, à notre avis sont réalistes, équilibrées et fonctionnelles.

Le document que je dépose aujourd'hui, Le secteur financier: nouvelles orientations, permettra aux milieux financiers canadiens de planifier et d'agir avec confiance. Il expose les mesures qui seront déposées sous forme législative en 1987. Il présente également le cadre dans lequel le gouvernement exercera, en matière de transfert de propriété, les pouvoirs précis proposés dans les projets de loi C-8 et C-9, qui ont tous deux fait l'objet d'une première lecture le 6 octobre 1986.

Les mesures que nous proposons ont une large portée et elles exerceront des effets profonds et positifs. Elles portent sur des questions interdépendantes, qui exigent une approche intégrée. Une étude attentive du document que je dépose est nécessaire à une bonne compréhension de la portée de nos propositions.

Notre politique consiste essentiellement à agir dans quatre domaines liés entre eux:

- En premier lieu, nous permettrons l'intégration des services financiers par le biais de la propriété commune des institutions et d'un élargissement des pouvoirs.
- En second lieu, nous instaurerons une politique pragmatique, en matière de propriété, qui portera un coup d'arrêt à l'intensification des liens commerciaux-financiers dans l'économie, tout en maintenant une concurrence équilibrée dans le secteur des services financiers.
- En troisième lieu, nous mettrons en place un cadre renforcé de réglementation prudente.
- En quatrième lieu, nous moderniserons et renforcerons notre appareil de surveillance.

Monsieur le président,

J'annonce aujourd'hui une politique qui fournira des directions nouvelles à notre secteur financier. C'est un secteur qui intéresse tous les Canadiens. Nos comptes d'épargne, nos hypothèques, nos prêts automobiles, nos polices d'assurance -- tous ces éléments et d'autres sont des produits financiers essentiels à notre vie quotidienne. Il est indispensable que nous soyons bien servi par ce secteur.

Tous les députés savent que le Canada a la chance de posséder l'un des meilleurs systèmes financiers au monde. Ce système est composé d'institutions saines et de classe internationale. Il emploie des centaines de milliers de Canadiens et en dessert des millions. C'est l'un des principaux secteurs d'exportation du Canada.

Le secteur financier vit des transformations rapides. Les techniques de communication ont permis l'apparition de marchés globaux fonctionnant 24 heures sur 24. Les mouvements internationaux de capitaux ont pris une importance considérable. Les rôles traditionnels des institutions financières sont en train de changer.

Ces influences globales remettent en cause une législation conçue pour une époque moins dynamique, qui appartenait désormais au passé. C'est la raison pour laquelle, dès son entrée en fonction, le gouvernement avait annoncé son intention d'œuvrer avec les provinces, le public et les milieux financiers à une réforme de la réglementation financière qui permette d'exploiter les possibilités offertes par le changement.

En avril 1985, le gouvernement avait exposé ses objectifs de réforme dans le domaine financier; nous avons présenté des propositions précises afin d'orienter le débat.

Au cours des 18 mois écoulés, des débats, des études et des analyses approfondis ont eu lieu. Des opinions diverses ont été exprimées.

On reconnaît largement le rôle clé joué par le secteur financier dans le renouveau économique -- sur le plan non seulement du financement des investissements au Canada, mais aussi de l'exportation et de l'emploi.

On convient que notre système financier est foncièrement sain et que la répartition fondamentale des responsabilités de surveillance de nos institutions devrait être maintenu.

La tendance à l'intégration des services financiers est un phénomène international, en marche aussi bien ici qu'à l'étranger, et l'on s'attend largement sur les avantages qui en découlent pour les consommateurs.

À VÉRIFIER CONTRE DÉBIT

Le secteur financier: nouvelles directions
lors du dépôt du document d'orientation

le jeudi 18 décembre 1986

à la Chambre des communes

l'honorable Thomas Harkin,
Ministre d'Etat aux Finances,

Allocution de

En embargo jusqu'à 16h30 HAF

Ottawa, le 18 décembre 1986
86-210

Release

Department of Finance
Canada

Communiqué

Ministère des Finances
Canada



Release

Communiqué

Immediate release

Ottawa, December 22, 1986

86-211

RULES ON TAX ASSISTANCE TO NORTHERN RESIDENTS

The Honourable Michael Wilson, Minister of Finance, together with the Honourable Elmer MacKay, Minister of National Revenue, today released the rules relating to the budget proposals for tax relief in respect of housing and travel benefits for residents of Northern Canada. These details clarify the mechanics of the tax relief proposed in the February 1986 budget.

The new system, which comes into effect January 1, 1987, will extend tax assistance in respect of housing costs to all permanent residents of isolated posts, including pensioners, the self-employed and employees not actually receiving direct benefits from employers. Individual taxpayers will be eligible for a standard deduction of 20 per cent of net income to a maximum of \$225 per month, or \$2,700 per year. A special maximum of \$450 per month, or \$5,400 per year, will be available to an individual who is the sole claimant residing in and maintaining a self-contained domestic establishment.

Mr. Wilson said the new measure replaces the system of temporary remission orders that gave tax relief for Northern housing benefits provided to employees in isolated posts. The criteria for determining isolated posts under the new system are, however, consonant with those that are used in the remission orders and in the Treasury Board Isolated Posts Directive. Mr. Wilson noted that the Treasury Board guidelines have been used for many years for providing northern benefits to federal employees, and they are the appropriate criteria for ascertaining which locations should qualify for the tax benefits under the new system.

"The new provisions are fair and reasonable," Mr. Wilson said. "They reaffirm the government's commitment to residents of the north and isolated posts."

Canada

DETAILS OF INCOME TAX RULES ON HOUSING AND TRAVEL ASSISTANCE FOR ISOLATED POSTS

Qualification Criteria for Isolated Posts

The new rules apply to all residents north of the 60th parallel and to residents of "isolated posts" south of that parallel. Under the new rules, a location south of 60° qualifies as an isolated post if:

1. It has a population of less than 10,000

AND

- 2(a) (i) does not have all-weather road access;
- (ii) scores 50 or more points on factors relating to access, land conditions, climate and population; and
- (iii) is more than 80 kilometers distant from an urban area with a population of 50,000 or more.

OR

- 2(b) (i) has all-weather road access;
- (ii) is more than 160 kilometers by road from an urban area with a population of 10,000 or more;
- (iii) is more than 320 kilometers by road from an urban area with a population of 50,000 or more; and,
- (iv) scores 50 or more points on factors relating to access, land conditions, climate and population.

The eligibility criteria are essentially identical to those that currently apply under the remission orders and the Treasury Board Isolated Posts Directive.

A list of isolated posts that qualify under the existing system is attached.

Travel Assistance

The new system extends to an employee a deduction for up to two employer-provided vacation trips per year to the nearest designated city. The benefit of all employer-provided travel will be included in income but the value of two vacation trips and all medical travel will be deductible to the employee. The deductions are allowed only if the vacation or medical travel actually takes place.

The deductible amount will be the lowest of either the actual travel expenses incurred, or the amount of the employer-provided travel assistance or the lowest return air fare for the employee and dependents on the most practical means of transportation between the isolated post and the nearest designated city. The designated cities are Vancouver, Edmonton, Calgary, Saskatoon, Winnipeg, North Bay, Toronto, Ottawa, Montreal, Quebec City, Moncton, Halifax and St. John's.

Housing Benefits

Under the new rules, all residents of the North and isolated posts including pensioners, the self-employed and employees not actually receiving direct housing benefits from employers may claim a special deduction in respect of their housing costs. Individual taxfilers will be eligible for a deduction of 20 per cent of net income to a maximum of \$225 per month or \$2,700 per year. A special maximum of up to \$450 per month or \$5,400 per year will be available to an individual who is the sole claimant residing in and maintaining a self-contained domestic establishment.

In the case of employees receiving employer-provided housing benefits, the value of such benefits after 1986 will be included in income for tax purposes. Employers will be required to report the value of these benefits on the T-4 slips of employees. The net housing benefit to employees will be equal to the value of the accommodation provided, less any rent they have paid.

In major centres such as Yellowknife and Whitehorse, having a developed rental housing market, the benefit amount will be based on the fair market value of the rental accommodation in that location. In other areas, employers will be required to value the housing benefits and, to assist employers, Revenue Canada-Taxation has provided the following guidelines:

Common Shelter	\$100 per month including the value of subsidized utilities
Apartment/Duplex	\$270 per month excluding the value of subsidized utilities, or \$400 per month including the value of subsidized utilities
House	\$450 per month excluding the value of subsidized utilities, or \$650 per month including the value of subsidized utilities

The amounts established as the values of accommodation will be adjusted annually after 1987 based on the housing component of the consumer price index.

Residency Requirements

To be eligible for the housing deduction, an individual must have resided in the North or an isolated post for at least six consecutive months. Individuals moving to the post late in the taxation year may claim the housing deduction for the months they resided there, provided they meet the residency requirement at the time of filing their returns for that taxation year.

Individuals are considered to "reside" in an isolated post if that location is where they regularly and customarily live. Temporary absences, such as vacations and illness, will not be considered to interrupt residency.

The calculation of the housing deduction for the year will be as follows:

- I. Number of days of residence as the sole claimant maintaining a self-contained domestic establishment at an isolated post $\frac{\quad}{30}$ = Y months
(rounded to the nearest whole number)
- II. Total number of days of residence in the year at an isolated post $\frac{\quad}{30}$ = Z months

The allowable housing deduction for the year is:

$((Z-Y) \times \$225) + (Y \times \$450)$ or 20% of net income, whichever is lower.

Example

An individual moves to an isolated post on March 1, 1987. He lives in a rooming house for 75 days after which time he rents an apartment as his residence for the rest of the year. This person's net income in 1987 is \$35,000. No other person claims a housing deduction for that apartment during the time the individual is renting it.

Using the above formula

Number of days of residence as the sole claimant maintaining a self-contained domestic establishment = 231

- I. $\frac{231}{30} = 7.7$ months - This is rounded off to 8 months

- II. Total number of days of residence in the year at an isolated post = 306

$$\frac{306}{30} = 10.2 \text{ - This is rounded off to 10 months}$$

Allowable housing deduction for the year is the lower of

$(8 \times \$450) + ((10-8) \times \$225)$ or 20% of net income, which in this example is \$7,000

$$= \$3600 + \$450 = \$4050$$

In this example, the allowable deduction will be \$4050.

Special Rules

Special rules will be provided to ensure that individuals who maintain a self-contained domestic establishment in the North or at an isolated post but who work on a temporary basis at a special or remote work site will not have their northern housing deduction reduced by any housing, board or travel benefits they receive from their employers and which are exempt under subsection 6(6) of the Income Tax Act.

Conversely, individuals who normally maintain a domestic establishment at a non-isolated location, but who work on a temporary basis at an isolated post and receive employer-provided housing, board and travel benefits which are exempt under subsection 6(6) of the Act, may claim the northern housing deduction only to the extent that it exceeds any benefits exempted under that subsection.

Transitional Relief

The government also proposes to provide transitional relief when locations south of 60° cease to qualify as isolated posts. This would occur when a post with an all-weather access road reaches a population of 10,000; or, in the absence of an all-weather road, when its population reaches 15,000; or, when it ceases to meet any of the eligibility criteria outlined on page 1. Under the transitional provisions, the full deduction will be available in the year in which a post is disqualified, declining to a two-thirds and one-third deduction, respectively, in the next two years. No deduction will be available in subsequent years.

Reporting Requirements

The value of the housing benefits must be reported on the recipient's T-4 slip. A deduction for housing will be granted up to the specified limits. In the case of housing, employers may adjust the amount of withholding tax to reflect the value of the deduction, provided this has been indicated on the employee's TD-1 form.

Where there is no employer-employee relationship, individuals claiming the housing deduction must file the required information with their tax returns. A special form will be provided for this purpose, and will be available in 1987 from Revenue Canada's District Taxation Offices.

Employers will be required to report the full value of the vacation travel assistance on the employee's T-4 slip. As well, tax must be withheld on these amounts except in the case of travel assistance provided by way of non-refundable tickets.

LIST OF QUALIFIED ISOLATED POSTS
LISTE DES POSTES ISOLÉS ADMISSIBLES

ALBERTA

Assumption
Atikameg
Berwyn
Big Horne I.S., Nordegg
Boyer River, Indian Reserve
Chipewyan Lake
Conklin
Desmarais
Donnelly
DPW Camp No. 1
Enilda
Falher
Fort Chipewyan
Fort Vermilion
Fox Lake Reserve
Frog Lake Reserve
Garden River
Gift Lake
Girouxville
Grande Cache
Grimshaw
Grouard Mission
Habay
Hay Lake Reserve
High Level
High Prairie
Janvier
Jean Cote

John D'or Prairie Reserve
Joussard
La Crete
Manning
McLennan
Nampa
North Tall Cree
Peerless Lake
Rainbow Lake
Red Earth Creek
Smallboy Camp
South Tall Cree
Trout Lake
Upper Hay River I.S. No. 720
Wabasca
Wood Buffalo National Park
 Parc national de Wood Buffalo
 Angus Tower
 Carlsons Landing
 Cherry Mountain
 Davidson Lake
 Hay Camp
 High Rock
 Parsons Lake
 Peace Point
 Pine Lake
Yaha Tinda Ranch

BRITISH COLUMBIA -- COLOMBIE-BRITANNIQUE

Aiyansh	Kitwancool
Ahousat	Kitwanga
Alert Bay	Klappan I.S.
Alexis Creek	Kitsault
Alkali Lake	Klemtu
Anaham Lake, I.S.	Kluskus Indian Reserve
Anahim Lake	Konni Lake
Anahim Lake, I.S. No. 799	Kyuquot
Atlin	Kyuquot, I.S., Kyuquot
Atnarko Creek	Lindeman City
Babine Indian Reserve	Lower Post
Bella Bella	Masset
Bella Bella I.S., No. 802 Campbell Island	Mathers
Bella Coola	Meziadin Lake
Blueberry I.D.S.	Mica Creek
Bob Quinn Lake	Morice Nanika
Bull Harbour	Muncho Lake, Mile 456
Cape St. James	New Aiyansh
Cassiar	Ocean Falls
Channiss Bay	Pacific Rim National Park (Phase 3)
Church House (Homalco I.D.S.)	Pallant Creek
Coal River, Mile 543	Pleasant Camp
Dawson's Landing, Rivers Inlet	Port Alice
Deadmans Bay	Port Clements
Dease Lake	Port Eliza
Dog Creek	Port Hardy (Port Hardy Airport/Aéroport)
Doig River I.S.	Port McNeill
Espenanza	Port Simpson
Estevan Point	Portage
Ethelda Bay	Prophet River, I.S. No. 797
Finbow	Puntzi Mountain
Fort Nelson	Quatsino
Fort Rupert	Queen Charlotte
Fort Ware	Queen Cove
Fraser	Redstone Indian Reserve
Gilford Island	Rivers Inlet
Gold Bridge	Sandspit
Good Hope Lake	San Josef (including/y compris CFS Holberg)
Greenville	Sewell Inlet
Haines Rd., Mile 75	Sikanni, Mile 163
Halfway River I.R.	Smith River, Mile 558
Hartley Bay	Snootli Creek
Holberg	Sointula
Hudson Hope	Spring Island
Iskut Lake	Stewart
Kemano	Stikine River
Kendrick Arm	Stone I.D.S.
Kincolith	Summit Lake, Mile 392
Kingcome Inlet	Tahsis
Kitkatla	Takla Landing
Kitsegukla	Taku River
	Tasu

Tatla Lake
Tattoga Camp
Telegraph Creek

Tumbler Ridge
Zeballos

MANITOBA

Berens River
Bloodvein I.S., No. 504
Brochet
Carragana
Churchill
Cormorant
Cranberry Portage
Cross Lake
Easterville
Flin Flon, Man./ Creighton, Sask.
Garden Hill, I.S., Island Lake
Gillam
God's Narrows
God's River
Grand Rapids
Granville Lake
Ilford
Jack Head Harbour
Jenpeg
Lac Brochet
Leaf Rapids
Little Grand Rapids Reserve
Lynn Lake

Moose Lake
Nelson House
Norway House
Oxford House
Paungassí, I.S.
Pikwitonei
Pine Creek
Poplar River Reserve, Neginan
Pukatawagan
Red Sucker Lake
Shamattawa
Sherridon
Snow Lake
South Indian Lake
Split Lake
Ste Thérèse Point
Tadoules Lake
The Pas
Thicket Port
Wassagomach
Waterhen
York Factory
York Landing

NOVA SCOTIA -- NOUVELLE-ÉCOSSE

Sable Island

NORTHWEST TERRITORIES -- TERRITOIRES DU NORD-OUEST

Aklavik	Fort Simpson
Alert	Fort Smith
Arctic Bay	Frobisher Bay
Arctic Red River	Gjoa Haven
Baker Lake	Grise Fiord
Belcher Islands	Hall Beach
Broughton Island	Hay River (Enterprise)
Cambridge Bay	Holman Island
Cape Dorset	Igloolik
Cape Dyer	Inuvik
Cape Parry	Isachsen
Chesterfield Inlet	Lake Harbour
Clyde River	Mould Bay
Coppermine	Nahanni Butte
Coral Harbour	Nanisivik (Strathcona Sound)
DPW Camp No. 2	Norman Wells
DPW Camp No. 3	Pangnirtung
DPW Camp No. 4	Paulatuk
DPW Camp No. 4A	Pelly Bay
DPW Camp No. 5	Pine Point
DPW Camp No. 6	Pond Inlet
DPW Camp No. 7	Port Burwell
DPW Camp No. 8	Rae
DPW Camp No. 9	Rankin Inlet
Ennadai Lake	Repulse Bay
Eskimo Point	Resolute
Eureka	Resolution Island
Fort Franklin	Sachs Harbour
Fort Good Hope	Snow Drift
Fort Liard	Spence Bay
Fort McPherson	Tuktoyaktuk
Fort Norman	Tungsten
Fort Providence	Whale Cove
Fort Reliance	Wrigley (including/y compris Fort Wrigl
Fort Resolution	Yellowknife

NEWFOUNDLAND -- TERRE-NEUVE

Anchor Point	Goose Cove
Aspen Cove	Grand Bank (including/y compris Fortune)
Badger's Quay	Grand Bruit
Baie Verte	Greenspond
Bartlett's Harbour	Grey River
Bear Cove	Griquet
Bell Island, White Bay	Harbour Breton
Bellburn's	Harbour Deep
Belleoram	Hawke's Bay
Big Brook	Head of Bay d'Espoir
Bird Cove	Hermitage
Black Duck Cove	Hopedale, Lab.
Black Tickle	Ile aux Morts
Blue Cove	Jackson's Arm
Border Beacon, Lab.	Joe Batt's Arm
Brig Bay	Labrador City
Burgeo	L'Anse au Clair
Burin	L'Anse-au-Loup, Lab.
Burlington	L'Anse-au-Meadow
Burnt Islands	La Poile
Cape Onion	La Scie, White Bay
Capstan Island, Lab.	Lamaline
Carmanville	Lawn
Cartwright, Lab.	Lumsden
Castor River	Main Brook
Centerville	Makkovik, Lab.
Change Islands	Mary's Harbour, Lab.
Channel Port aux Basques	McCallum
Charlottetown, Lab.	Meresheen Island
Churchill Falls	Milltown
Conche	Mud Lake, Lab.
Conne River	Musgrave Harbour (including/y compris Doating Cove, Ragged Harbour)
Cooks Harbour	Nain
Cow Head	Nipper's Harbour, Green Bay
Croque	North Boat Harbour
Daniel's Harbour, St. Barbe District	North West River, Lab.
Doyles	Parsons Point
Durrell	Pacquet
Eddie's Cove	Parsons Pond
Eddie's Cove West	Petites
Englee, White Bay North	Pines Cove
English Harbour West	Plum Point
Flowers Cove, St. Barbe District	Point au Gaul
Flowers Island	Point May
Fogo, Notre Dame Bay	Pollard's Point
Forteau, Lab.	Pond Cove
Fox Harbour Lab.	Pools Cove
François	Port aux Choix
Garnish	Port Hope Simpson, Lab.
Gaultois	Port Saunders
Goose Bay/Happy Valley, Lab.	

Quirpon, White Bay
Raleigh
Ramea
Red Bay, Lab.
Reef's Harbour
Rencontre East
Rigolet, Lab.
River of Ponds
Roddickton
Rose Blanche
St. Albans
St. Anthony (including/y compris
 St. Anthony East)
St. Lawrence
St. Lunaire

ONTARIO

Angling Lake, I.S.
Armstrong
Aroland
Attawapiskat
Balmertown
Bear Island
Bearskin
Big Trout Lake
Cat Lake
Central Patricia
Christian Island
Cochenour
Collins
Cyclone Island
Deer Lake
Ear Falls
Fort Albany
Fort Hope
Fort Severn
Grassy Narrows
Gull Bay
Hemlo
Hornepayne
Hudson
Islington I.D.S. Whitedog Reserve
 Kenora
Kasatchewan Indian Reserve
Kasabonika
Kingfisher Lake
Lac la Croix Reserve
Lac Seul

Ste. Barbe
Seal Cove, White Bay
Seldom, Fogo Island
Separation Point, Lab.
Shoe Cove, Green Bay
South Branch, St. George District
Trepassey
Twillingate
Valleyfield
Wabush, Lab.
Wareham - Centreville
Wesleyville
West St. Modeste, Lab.
White Point, Lab.

Lansdowne House
Longlac
Madsen
Manitouwadge
Mobert
Moose Factory
Moosonee
Muskrat Dam
Nakina
Northwest Angle
Ogoki
Osnaburgh
Pickle Lake
Pikangikum
Poplar Hill
Prairie Portage
Red Lake
Round Lake
Sachigo Lake
Sand Point Lake
Sandy Lake
Seine River Reserve, Glenorchy
Shoal Lake Res., #40
Shoal Lake Reserve I.D.S.
Sioux Lookout
Spirit Lake
Swift Rapids
Webiqui
Winisk
Wunnumin Lake

QUÉBEC

Anse-au-Griffon	Kangiqsualujjuak (formerly/anciennement Port Nouveau)
Barachois de Malbaie	Keyano
Black Cape	Koartak (see/voir Quaqtaq)
Blanc Sablon	Kuujjuak (formerly/anciennement Fort Chimo)
Bonaventure	Kuujjuarapik (formerly/anciennement Poste-de-la-Baleine)
Brouillan	Lake Eon
Cap d'Espoir	La Grande
Cap-des-Rosiers	L'anse-à-Beaufils
Cape Hopes Advance	L'anse-à-Valleau
Caplan	L'Alverne
Carleton	La Tabatière
Chandler	L'Échouerie
Chapais	Les Mélèses
Chevery	Longue-Pointe-de-Mingan
Chisasibi (formerly/anciennement Fort George)	Lourdes-du-Blanc-Sablon
Cloridorme	Manouane
Douglastown	Maria
Duplanter	Matagami
Easman (formerly/anciennement Eastmain)	Mingan
Eastmain (see/voir Easman)	Mistassini Post
Escuminac	Murdochville
Fermont	Mutton Bay
Fontenelle	Natashquan
Fort Chimo (see/voir Kuujjuak)	New Carlisle
Fort George (see/voir Chisasibi)	Newport
Gagnon	New Richmond (including/y compris New Richmond Station)
Gascons	Nitchequon
Gascons Ouest	Nouvelle
Gaspé (including/y compris Gaspé Harbour)	Obedjiwan Reserve
Grande-Cascapedia (including/ y compris St. Jules)	Pabos
Grande Rivière	Paint Hills (see/voir Wemindji)
Grande Rivière Ouest	Parent
Grande-Vallée	Paspebiac
Grosse Île	Payne Bay (see/voir Kangirsuk)
Harrington Harbour	Percé
Hâvre Saint-Pierre	Petit-Cap
Îles-de-la-Madeleine (Magdalen Islands)	Point-à-la-Croix
Inoucdjouac (see/voir Inukjuak)	Point-à-la-Garde
Inukjuak (formerly/anciennement Inoucdjouac)	Port Daniel
Ivujivik (formerly/anciennement Ivuyivik)	Port Menier
Ivuyivik (see/voir Ivujivik)	Port Nouveau (see/voir Kangiqsualujjuak)
Kangiqsujuaq (formerly/anciennement Wakeham Bay)	Poste-de-la-Baleine (see/voir Kuujjuarapik)
Kangirsuk (formerly/anciennement Payne Bay)	Povungnituk
	Quaqtaq (formerly/anciennement Koartak)

Radisson
Restigouche
Rivière aux Renards
Rivière-Paspebiac
Romaine
Rupert House (see/voir Waskagheganish)
St. Alphonse
St. Augustine
St. Elzéar
St. Godfroi
St. Jorges
St. Omer
St. Siméon

Sakami
Salluit (formerly/anciennement Sugluk)
Sanmaur
Schefferville
Ste-Thérèse-de-Gaspé
Sugluk (see/voir Salluit)
Umiujac
Wakeham Bay (see/voir Kangiqsujuaq)
Waskagheganish (formerly/anciennement
Rupert House)
Wemindji (formerly/anciennement
Paint Hills)
Winneway

SASKATCHEWAN


Arborfield
Beauval
Bighead Reserve
Black Lake I.S., No. 683
Brabant Lake
Buffalo Narrows
Canoe Lake
Carrot River
Climax (including/y compris
Port of Climax)
Chelarn
Cole Bay
Consul (Including/y compris
Willow Creek)
Cree Lake
Cumberland House
Dore Lake
Eldorado
Fond du Lac
Garson Lake
Goodsoil
Green Lake
Hudson Bay
Île-à-la-Crosse
Jans Bay

Kinoosao
La Loche
La Ronge
Michel Village
Monchy
Patuanak Indian Reserve/
Réserve Indienne de Patuanak
Pelican Lake
Pelican Narrows
Peter Pond I.S. No. 679
Pierceland
Pinehouse Lake
Porcupine Plain
Prairie River
Red Earth Reserve
St. George Hill
Shoal Lake I.S.
Southend, Reindeer Lake
Stanley Mission
Stoney Rapids
Turnor Lake
Uranium City
Waterhen Lake
Weeks
Wollaston Lake

YUKON -- TERRITOIRE DU YUKON

Beaver Creek, Mile 1202
Brooks Brook, Mile 830
Carcross
Carmacks
Dawson
Destruction Bay, Mile 1083 (Burwash)
Dezadeash Station
DPW Camp No. 7, Watson Lake, Ross River
DPW Camp No. 8, Ross River South Road
Eagle River Bridge
Faro

Haines Junction
Little Gold
Mayo
Old Crow
Pelly Crossing
Ross River
Swift River, Mile 733
Teslin
Upper Liard
Watson Lake
Whitehorse



Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate release

CAI
FN

Ottawa, January 30, 1987

87-18

The Honourable Michael Wilson
Minister of Finance
made the following statement
in the House of Commons
January 30, 1987

CHECK AGAINST DELIVERY

Mr. Speaker, at this time I want to inform Members about the government's plans for comprehensive tax reform and for a budget.

Members will be aware that the greater part of our pre-budget consultations with Canadian organizations was concluded just before Christmas. As well, my staff and officials of the Department of Finance continued to meet with representatives of various groups this month.

Formal submissions on tax reform from many of these groups are still arriving. Many of the submissions clearly represent a thorough, conscientious and detailed effort to deal with tax reform in a realistic way.

We are reviewing these submissions in the same conscientious and scrupulous manner in which they were researched and presented. I consider these views an important element of our tax reform planning.

Mr. Speaker, we knew at the start that comprehensive tax reform would be a big job. We are, as Members know, examining all aspects of the tax system -- personal, corporate and sales tax -- in light of the guidelines for tax reform I released in October and with the benefit of our consultations with Canadians.

We are making good progress toward a comprehensive tax reform proposal.

Mr. Speaker, I am now planning to bring forward the government's proposal for comprehensive tax reform this Spring. However, I do not believe it would be appropriate to defer a budget for that long.

I therefore intend to maintain the commitment I have made to put the budgetary process on a regular basis. I will bring down a budget next month on Wednesday, February 18. As I have said in the past, it is sensible to present a budget annually in February, sensible because regular timing of the federal budget makes for greater certainty and orderliness in financial planning -- for the federal government, for the provinces, for businesses and for individuals.

Mr. Speaker, Canadians who are planning their financial affairs should be mindful that some income tax changes proposed in the budget may take effect at midnight the day before budget day -- that is, at midnight February 17. This provision will ensure that such budgetary changes apply uniformly to all transactions made on budget day, regardless of where in Canada the transactions take place.

Mr. Speaker, let me very briefly sum up: I will table a budget on February 18. And I will be presenting a comprehensive tax reform proposal to this House this Spring.

Release

Communiqué

87-12

For immediate release

Ottawa, January 21, 1987

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for October 1986 and the first seven months of the 1986-87 fiscal year.

For October 1986, budgetary revenues were \$7,203 million, budgetary expenditures were \$9,265 million and there was a deficit of \$2,062 million. For October 1985, revenues were \$6,654 million, expenditures were \$8,918 million and there was a deficit of \$2,264 million.

For the first seven months of the 1986-87 fiscal year, revenues were \$47,069 million, expenditures were \$63,335 million and there was a deficit of \$16,266 million. For the same period last year, revenues were \$41,158 million, expenditures were \$60,053 million and there was a deficit of \$18,895 million.

For further information:

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

Canada

Publication immédiate

Ottawa, le 21 janvier 1987

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois d'octobre 1986 et les sept premiers mois de l'année financière 1986-87.

Les chiffres budgétaires d'octobre 1986 montrent des recettes de \$7,203 millions, des dépenses de \$9,265 millions et un déficit de \$2,062 millions. En octobre 1985, les recettes s'établissaient à \$6,654 millions, les dépenses à \$8,918 millions et le déficit à \$2,264 millions.

Les sept premiers mois de l'année financière 1986-87 ont produit des recettes de \$47,069 millions contre des dépenses de \$63,335 millions d'où un déficit de \$16,266 millions. La période correspondante de l'an dernier avait donné des recettes de \$41,158 millions, des dépenses de \$60,053 millions et un déficit de \$18,895 millions.

Pour de plus amples renseignements:

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

Ottawa, Canada K1A 0G5
613 992-1573

Release

Communiqué

87-02

For immediate release

Ottawa, January 7, 1987

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for September 1986 and the first six months of the 1986-87 fiscal year.

For September 1986, budgetary revenues were \$6,695 million, budgetary expenditures were \$8,976 million and there was a deficit of \$2,281 million. For September 1985, revenues were \$6,038 million, expenditures were \$8,616 million and there was a deficit of \$2,578 million.

For the first six months of the 1986-87 fiscal year, revenues were \$39,866 million, expenditures were \$54,070 million and there was a deficit of \$14,204 million. For the same period last year, revenues were \$34,504 million, expenditures were \$51,135 million and there was a deficit of \$16,631 million.

For further information:

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Peter DeVries (613) 992-5977.

Publication immédiate

Ottawa, le 7 janvier 1987

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de septembre 1986 et les six premiers mois de l'année financière 1986-87.

Les chiffres budgétaires de septembre 1986 montrent des recettes de \$6,695 millions, des dépenses de \$8,976 millions et un déficit de \$2,281 millions. En septembre 1985, les recettes s'établissaient à \$6,038 millions, les dépenses à \$8,616 millions et le déficit à \$2,578 millions.

Les six premiers mois de l'année financière 1986-87 ont produit des recettes de \$39,866 millions contre des dépenses de \$54,070 millions d'où un déficit de \$14,204 millions. La période correspondante de l'an dernier avait donné des recettes de \$34,504 millions, des dépenses de \$51,135 millions et un déficit de \$16,631 millions.

Pour de plus amples renseignements:

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

Release

Communiqué

87-27

For immediate release

Ottawa, February 12, 1987

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for November 1986 and the first eight months of the 1986-87 fiscal year.

For November 1986, budgetary revenues were \$6,857 million, budgetary expenditures were \$9,160 million and there was a deficit of \$2,303 million. For November 1985, revenues were \$6,322 million, expenditures were \$9,230 million and there was a deficit of \$2,908 million.

For the first eight months of the 1986-87 fiscal year, revenues were \$53,926 million, expenditures were \$72,495 million and there was a deficit of \$18,569 million. For the same period last year, revenues were \$47,480 million, expenditures were \$69,283 million and there was a deficit of \$21,803 million.

Publication immédiate

Ottawa, le 12 février 1987

ETATS MENSUELS DES OPERATIONS FINANCIERES

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de novembre 1986 et les huit premiers mois de l'exercice financier 1986-87.

Les chiffres budgétaires de novembre 1986 montrent des recettes de \$6,857 millions, des dépenses de \$9,160 millions et un déficit de \$2,303 millions. En novembre 1985, les recettes s'établissaient à \$6,322 millions, les dépenses à \$9,230 millions et le déficit à \$2,908 millions.

Les huit premiers mois de l'exercice financier 1986-87 ont produit des recettes de \$53,926 millions contre des dépenses de \$72,495 millions d'où un déficit de \$18,569 millions. La période correspondante de l'an dernier avait donné des recettes de \$47,480 millions, des dépenses de \$69,283 millions et un déficit de \$21,803 millions.

The year-to-date improvement in the deficit has been affected by particular developments in both revenues and expenditures. On a year-over-year basis, the growth in revenues has been slowing in recent months. This pattern is expected to continue over the remaining months of the fiscal year reflecting such factors as the ending of the high-income surtaxes. Expenditures have been significantly influenced by the timing of certain payments, especially those relating to assistance to the agricultural sector, and defence capital acquisitions.

For further information:

Louis A. Langlois (613) 996-7380
Peter DeVries (613) 992-5977.

L'amélioration du déficit, jusqu'à présent, a été influencée par des développements particuliers dans les recettes et les dépenses. Sur une base d'une année sur l'autre, la croissance des recettes a ralenti durant les derniers mois. Il est prévu que cette tendance se prolongera jusqu'à la fin de l'exercice financier reflétant ainsi des facteurs tel que l'élimination des surtaxes sur les revenus élevés. Les dépenses ont été nettement influencées par le calendrier de certains paiements, spécialement ceux en relation avec l'aide au secteur agricole et les immobilisations pour la défense.

Pour de plus amples renseignements:

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CAI
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77 2
Release

Communiqué

Embargoed

Ottawa, February 18, 1987

87-28

TARIFF INCREASES REMOVED ON IMPORTED BOOKS,
COMPUTER PARTS, AND CHRISTMAS TREES

The Honourable Michael Wilson, Minister of Finance, announced today in his budget that tariff increases on a number of imported products, imposed last June 6 in response to a U.S. tariff levied on Canadian exports of red cedar shakes and shingles, are being removed, effective February 19, 1987.

This restores duty-free entry for books, computer parts and semiconductors, and Christmas trees. The previous rates of duty for a range of other products, which applied before June 6, 1986, are reinstated.

Mr. Wilson noted that Canada adopted a two-fold response last June to the protectionist U.S. action against Canadian cedar shakes and shingles.

"We took measures to increase tariff rates on a number of goods imported principally from the U.S. We also tightened controls on the export to the United States of cedar logs and bolts."

He added that, as a result, the U.S. tariff did not enhance the competitiveness of the U.S. shakes and shingles industry, although it increased costs to American consumers.

"The export controls have protected the competitive position of the Canadian industry, which has been able to return to almost normal production levels," Mr. Wilson said. "Having achieved our purpose, we can maintain the strength of our response by confining it to the restrictions on the export of cedar logs and bolts."



Release

Communiqué

Embargoed

Ottawa, February 18, 1987

87-29

WITHDRAWAL OF THE GENERAL PREFERENTIAL TARIFF ON SPECIALTY AND CARBON STEEL MILL PRODUCTS

The Honourable Michael Wilson, Minister of Finance, announced today in his budget that the General Preferential Tariff (GPT), which applies to most imports from developing countries, is being withdrawn on most specialty and carbon steel mill products, effective February 19, 1987.

"Canada's steel industry faces serious competitive problems due to the world-wide excess in steel-making capacity," Mr. Wilson said.

The Minister noted that world capacity for producing steel far exceeds demand. One result is that a significant portion of the steel produced in the more advanced developing countries is being directed to markets in the industrial countries. This has contributed to excess supply and depressed prices which are having an adverse impact on the Canadian steel industry.

The action follows a review of representations made to the government by the Canadian Steel Trade Conference, a consultative group consisting of the United Steelworkers of America and Canadian steel producers.

Canada introduced the GPT in 1974, together with other developed countries, to provide, on a unilateral and non-contractual basis, preferential rates of customs duty for many goods from developing countries. These preferences were introduced on the understanding that they could be withdrawn when imports benefiting from preferential access were found to cause injury, or threaten

.../2

injury, to domestic producers. Many other industrial countries either did not grant tariff preferences on all steel products at the outset or have already instituted safeguard procedures or quota restrictions to prevent steel imports from developing countries from becoming disruptive to their industries.

The withdrawal of the General Preferential Tariff will raise the rate of duty on the affected imports by between 2.5 and 7.5 percentage points. These products are being produced by some of the most modern technologically advanced steel plants in the world.

The decision to withdraw the GPT on imports of steel mill products is consistent with Canada's multilateral rights and obligations under the General Agreement on Tariffs and Trade (GATT).

Goods that are either imported into, or in transit to, Canada before February 19, 1987 will not be affected by the tariff change.



Release

Communiqué

Embargoed

Ottawa, February 18, 1987
87-30

GOVERNMENT SEEKS NEW BORROWING AUTHORITY

The Honourable Michael Wilson, Minister of Finance, today tabled for first reading in Parliament a bill which seeks supplementary borrowing authority for the 1986-87 fiscal year as well as borrowing authority for 1987-88.

Mr. Wilson said that actions to maintain an orderly exchange market in the face of sharp upward pressure on the value of the Canadian dollar during January and early February have resulted in a significant increase in the government's official international reserves. Domestic borrowing was increased to obtain Canadian dollars to finance the increase in reserves. The use of borrowing authority for this purpose has led to the need for supplementary borrowing authority for fiscal year 1986-87. In the absence of borrowing authority the government can continue to finance its operations only by borrowing short-term funds as permitted under section 39 of the Financial Administration Act.

The bill seeks \$3.6 billion supplementary borrowing authority for 1986-87. The amount requested is equal to the borrowing authority used to finance the increase in reserves from the beginning of the fiscal year to January 31, 1987. "Any borrowing authority not used in connection with fiscal 1986-87 financing operations will be cancelled on March 31, 1987," the Minister said.

The bill also requests borrowing authority of \$24.3 billion for fiscal 1987-88. This amount is equal to the \$21.3 billion financial requirements forecast in the budget plus a \$3.0 billion non-lapsing reserve to provide flexibility to meet contingencies such as fluctuations in the level of Canada's international reserves.



Release

Communiqué

Sous embargo

Ottawa, le 18 février 1987
87-30

LE GOUVERNEMENT SOLICITE UN NOUVEAU POUVOIR D'EMPRUNT

Le ministre des Finances, l'honorable Michael Wilson, a déposé aujourd'hui au Parlement pour première lecture un projet de loi sollicitant un pouvoir d'emprunt supplémentaire pour l'exercice 1986-87, ainsi qu'un pouvoir d'emprunt pour 1987-88.

M. Wilson a déclaré que les mesures visant à maintenir un marché de change ordonné face aux fortes pressions à la hausse du dollar canadien en janvier et au début de février, avaient entraîné une augmentation appréciable des réserves de change du Canada. Les emprunts intérieurs ont été accrus afin de financer l'augmentation des réserves. Le recours au pouvoir d'emprunt à cette fin a rendu nécessaire un pouvoir d'emprunt supplémentaire pour 1986-87. En l'absence de ce pouvoir, le gouvernement peut continuer à financer ses activités en empruntant à court terme, comme le permet l'article 39 de la Loi sur l'administration financière.

Le projet de loi sollicite un pouvoir d'emprunt supplémentaire de \$3.6 milliards pour 1986-87. La somme demandée est égale au pouvoir d'emprunt utilisé pour financer la hausse des réserves entre le début de l'exercice et le 31 janvier 1987. « Tout pouvoir d'emprunt non utilisé à l'égard des opérations de financement de l'exercice sera annulé le 31 mars 1987, » a déclaré le Ministre. Le projet de loi sollicite également le pouvoir d'emprunter \$24.3 milliards pour 1987-88. Cette somme est égale aux besoins financiers de \$21.3 milliards prévus dans le budget, plus une réserve non annulable de \$3.0 milliards, afin de disposer de la marge de manœuvre voulue pour faire face aux imprévus, comme les fluctuations des réserves de change du Canada.

Il avait été entendu, lorsque ces préférences furent adoptées, qu'elles pourraient être retirées si l'on jugeait que les importations qui en bénéficiaient causaient ou menaçaient de causer préjudice aux producteurs intérieurs. Beaucoup d'autres pays développés soit n'avaient accordé aucune préférence tarifaire sur les produits d'acier dès le départ, soit avaient déjà adopté des mesures de sauvegarde ou un contingentement pour éviter que les importations d'acier des pays en développement ne perturbent leurs industries.

Le retrait du TPG accroîtra les droits sur les importations visées de 2.5 à 7.5 points. Ces produits proviennent d'usines parmi les plus modernes au monde sur le plan technologique.

La décision d'abolir le TPG sur les produits sidérurgiques importés est conforme aux obligations et aux droits multilatéraux du Canada dans le cadre de l'Accord général sur les tarifs douanier et le commerce (GATT).

Les marchandises qui sont importées ou en transit au Canada avant le 19 février 1987 ne seront pas touchées par ce changement tarifaire.



Release

Communiqué

Sous embargo

Ottawa, le 18 février 1987
87-29

RETRAIT DU TARIF DE PRÉFÉRENCE GÉNÉRAL SUR LES PRODUITS D'ACIERS SPÉCIAUX ET D'ACIER AU CARBONE

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui dans son budget que le tarif de préférence général (TPG), qui s'applique à la plupart des marchandises importées des pays en développement, serait aboli sur la plupart des produits d'acier spéciaux et d'acier au carbone à compter du 19 février 1987.

«L'industrie sidérurgique canadienne est confrontée à de graves problèmes concurrentiels à cause d'une capacité de production excédentaire au niveau mondial,» a déclaré M. Wilson.

Le Ministre a relevé que la capacité mondiale de production d'acier dépassait de beaucoup la demande. Il en résulte notamment qu'une bonne partie de l'acier produit dans les pays en développement les plus avancés est exportée vers les pays industrialisés. Cela a contribué à un excédent de l'offre et à une baisse des prix qui nuisent à la rentabilité de l'industrie sidérurgique canadienne.

La mesure prise fait suite à un examen des instances présentées au gouvernement par la conférence canadienne du commerce de l'acier, un groupe consultatif composé des métaux unis d'Amérique et des producteurs canadiens d'acier.

Le Canada avait instauré le TPG en 1974, avec d'autres pays développés, afin d'offrir, sur une base unilatérale et non contractuelle, des droits de douane préférentiels sur nombre de marchandises provenant des pays en développement.

Release

Communiqué

Ottawa, le 18 février 1987

87-28

RETRAIT DES HAUSSES TARIFAIRES SUR LES LIVRES, LES PIÈCES D'ORDINATEUR

ET LES ARBRES DE NOËL IMPORTÉS

Le ministre des Finances, l'honorable Michael Wilson, a annoncé aujourd'hui dans son budget que les hausses tarifaires imposées le 6 juin dernier sur un certain nombre de produits importés en réponse aux droits appliqués par les États-Unis aux exportations canadiennes de bardeaux de cèdre, sont éliminées à compter du 19 février 1987.

Cela rétablit l'entrée en franchise des livres, des pièces d'ordinateur et semi-conducteurs, et des arbres de Noël. Les taux tarifaires qui s'appliquaient avant le 6 juin 1986 à une série d'autres produits sont remis en vigueur.

M. Wilson a noté que le Canada avait adopté une double politique, en juin dernier, pour réagir aux mesures protectionnistes des États-Unis contre les bardeaux de cèdre canadiens.

« Nous avons augmenté nos droits de douane sur un certain nombre de produits importés principalement des États-Unis. Nous avons également renforcé le contrôle à l'exportation de billes et de billots de cèdre vers les États-Unis. »

Le Ministre a ajouté que, grâce à ces mesures, les droits américains n'avaient pas amélioré la compétitivité de l'industrie américaine du bardeau, mais avaient augmenté les coûts payés par les consommateurs américains.

« Les contrôles à l'exportation ont protégé la compétitivité de l'industrie canadienne, qui a pu revenir à des niveaux de production presque normaux, » a indiqué M. Wilson. « Ayant atteint notre but, nous pouvons maintenant la vigueur de notre réaction en la limitant aux restrictions à l'exportation de billes et de billots de cèdre. »



Release

Communiqué

87-52

For immediate release

Publication immédiate

Ottawa, April 3, 1987

Ottawa, le 3 avril 1987

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for January 1987 and the first ten months of 1986-87 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de janvier 1987 et les dix premiers mois de l'exercice 1986-87.

For January 1987, budgetary revenues were \$7,964 million, budgetary expenditures were \$9,740 million and there was a deficit of \$1,776 million. For January, 1986, revenues were \$7,562 million, expenditures were \$9,230 million and there was a deficit of \$1,668 million.

Les chiffres budgétaires de janvier 1987 montrent des recettes de \$7,964 millions, des dépenses de \$9,740 millions et un déficit de \$1,776 millions. En janvier 1986, les recettes s'établissaient à \$7,562 millions, les dépenses à \$9,230 millions et le déficit à \$1,668 millions.

For the first ten months of the 1986-87 fiscal year, revenues were \$70,059 million, expenditures were \$92,417 million and there was a deficit of \$22,358 million. For the same period last year, revenues were \$62,301 million, expenditures were \$88,045 million and there was a deficit of \$25,744 million.

Les dix premiers mois de l'exercice 1986-87 ont produit des recettes de \$70,059 millions contre des dépenses de \$92,417 millions d'où un déficit de \$22,358 millions. La période correspondante de l'an dernier avait donné des recettes de \$62,301 millions, des dépenses de \$88,045 millions et un déficit de \$25,744 millions.

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Release

Communiqué

CAI
FN 20
- 1155

87-45

For immediate release

Publication immédiate

Ottawa, March 13, 1987

Ottawa, le 13 mars 1987

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for December 1986 and the first nine months of the 1986-87 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de décembre 1986 et les neuf premiers mois de l'exercice 1986-87.

For December 1986, budgetary revenues were \$8,169 million, budgetary expenditures were \$10,182 million and there was a deficit of \$2,013 million. For December 1985, revenues were \$7,259 million, expenditures were \$9,532 million and there was a deficit of \$2,273 million.

Les chiffres budgétaires de décembre 1986 montrent des recettes de \$8,169 millions, des dépenses de \$10,182 millions et un déficit de \$2,013 millions. En décembre 1985, les recettes s'établissaient à \$7,259 millions, les dépenses à \$9,532 millions et le déficit à \$2,273 millions.

For the first nine months of the 1986-87 fiscal year, revenues were \$62,095 million, expenditures were \$82,677 million and there was a deficit of \$20,582 million. For the same period last year, revenues were \$54,739 million, expenditures were \$78,815 million and there was a deficit of \$24,076 million.

Les neuf premiers mois de l'exercice 1986-87 ont produit des recettes de \$62,095 millions contre des dépenses de \$82,677 millions d'où un déficit de \$20,582 millions. La période correspondante de l'an dernier avait donné des recettes de \$54,739 millions, des dépenses de \$78,815 millions et un déficit de \$24,076 millions.

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Release

Communiqué

CAI
FN 40
- C56

87-65

For immediate release

Publication immédiate

Ottawa, April 27, 1987

Ottawa, le 27 avril 1987

MONTHLY STATEMENTS OF FINANCIAL OPERATIONS

ETATS MENSUELS DES OPERATIONS FINANCIERES

The Honourable Michael Wilson, Minister of Finance, released today the regular monthly statements of the government's financial operations for February 1987 and the first eleven months of 1986-87 fiscal year.

L'honorable Michael Wilson, ministre des Finances, a publié aujourd'hui les états mensuels réguliers des opérations financières du gouvernement pour le mois de février 1987 et les onze premiers mois de l'exercice 1986-87.

For February 1987, budgetary revenues were \$6,338 million, budgetary expenditures were \$9,427 million and there was a deficit of \$3,089 million. For February, 1986, revenues were \$6,120 million, expenditures were \$8,846 million and there was a deficit of \$2,726 million.

Les chiffres budgétaires de février 1987 montrent des recettes de \$6,338 millions, des dépenses de \$9,427 millions et un déficit de \$3,089 millions. En février 1986, les recettes s'établissaient à \$6,120 millions, les dépenses à \$8,846 millions et le déficit à \$2,726 millions.

For the first eleven months of the 1986-87 fiscal year, revenues were \$76,397 million, expenditures were \$101,844 million and there was a deficit of \$25,447 million. For the same period last year, revenues were \$68,421 million, expenditures were \$96,891 million and there was a deficit of \$28,470 million.

Les onze premiers mois de l'exercice 1986-87 ont produit des recettes de \$76,397 millions contre des dépenses de \$101,844 millions d'où un déficit de \$25,447 millions. La période correspondante de l'an dernier avait donné des recettes de \$68,421 millions, des dépenses de \$96,891 millions et un déficit de \$28,470 millions.

Financial requirements, excluding exchange transactions, amounted to \$20.5 billion in the first eleven months of the 1986-87 fiscal year, down \$8.5 billion from the \$29.0 billion recorded in the corresponding period of fiscal year 1985-86.

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Les besoins financiers, excluant les opérations de change se sont établis à \$20.5 milliards pour les onze premiers mois de l'exercice 1986-87 en baisse de \$8.5 milliards par rapport aux \$29.0 milliards enregistrés dans la période correspondante de l'exercice 1985-86.

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Release

Communiqué

Immediate release

Ottawa, May 6, 1987

87-73

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Notes for a statement
in the House of Commons
by the Honourable Michael Wilson
Minister of Finance
May 6, 1987



CHECK AGAINST DELIVERY

Mr. Speaker, I want to inform the House and Canadians that I will be tabling the government's White Paper on tax reform on Thursday, June 18.

Last October in this House I said that tax reform would be based on a number of important guidelines. I set out those guidelines clearly for all Canadians to examine and consider. The White Paper I will be tabling in the House next month has been shaped by those guidelines. It has benefited from the views and insights of the provinces and Canadians across the country.

We said we would make the tax system fairer. We will. We will redistribute the tax burden, so that it will be shared more equitably among taxpayers in similar circumstances.

Tax reform will put the government's revenue sources into better balance, reducing reliance on personal income taxes and increasing the take-home pay of the overwhelming majority of Canadians. It will also provide the government with a sounder revenue base -- not more revenues, but more stable and predictable revenues.

Mr. Speaker, comprehensive reform of the tax system means making improvements in all three parts of the system -- personal, corporate and sales tax. Our White Paper will set out specific proposals in each of these areas.

To improve the personal income tax system we will propose lower rates, fewer rates, fewer special preferences and greater use of tax credits rather than exemptions.

Lower rates will benefit the large majority of taxpayers, not just now, but into the future as their incomes grow and they get to keep more of each additional dollar.

Fewer rates will simplify the tax structure. There are now ten tax brackets. We intend to reduce them to three.

Fewer special breaks for high-income earners will reduce opportunities for them to avoid paying their fair share of tax.

Converting personal exemptions and some deductions to tax credits will make the tax system fairer and more progressive. Moving to a system of credits will be a major change, a socially progressive change, a change to the personal income tax system on which future improvements for low-income Canadians can be built.

For the corporate income tax system, our proposal is to broaden the tax base by eliminating many special preferences and reducing others. As a result, many more profitable corporations will pay tax, and government revenues from corporate income tax will increase.

Broadening the tax base will enable us to lower corporate rates so that they remain competitive with those of our major trading partners and competitors.

Corporate tax reform will support the nation's ability to attract both Canadian and international investment. It will help ensure that business and investment decisions are based primarily on economic merit and growth potential rather than on tax considerations.

The White Paper will also set out proposals to achieve our goal of replacing the federal sales tax system. The current system is flawed and inadequate. We will replace it with a broad-based, multi-stage sales tax.

There are alternative mechanisms: a federal-only, multi-stage sales tax, with or without invoices; or a comparable federal-provincial tax with invoices. They vary only in their application and the manner in which they are implemented.

A federal-only tax without invoices, which could be called a business transfer tax or a goods and services tax, is relatively simple -- both to administer and comply with -- but only if it is applied uniformly on all goods and services.

A federal-only value-added tax with invoices can be more selectively applied, but would create more compliance and administrative problems in the face of existing provincial retail sales taxes.

A national multi-stage sales tax in cooperation with the provinces, which could be called the national sales tax, would replace both the federal sales tax and provincial retail sales taxes with a national system. Such an approach offers obvious advantages -- a harmonized national tax system; lower administration costs; and less paperburden for businesses. Provincial governments have indicated some interest in a national sales tax. The concept is clearly worth pursuing.

Mr. Speaker, the government's proposal for comprehensive tax reform aims to give Canada a fairer, simpler tax system, a system that is more effective in encouraging economic activity, jobs and opportunities for Canadians. This is what we are working toward in developing our proposals -- proposals that I will table in this House on June 18.

